

# KIRKLEES COUNCIL

## STATEMENT OF ACCOUNTS 2009/2010

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### Introduction

I am pleased to introduce the Council's Statement of Accounts for 2009/10. These accounts demonstrate the Council's financial performance for the year ended 31 March 2010. The accounts of such a large and diverse organisation are by their nature complex and technical, and the purpose of this explanatory foreword is to offer interested parties a more understandable guide to the most significant matters reported.

The financial statements are prepared using rules and concepts for companies (UK GAAP) but also include a number of local authority specific adjustments to avoid council tax payers contributing to future expenditure.

The Statement of Accounts contains five core accounting statements:

- **Income and Expenditure Account**
- **Statement of Movement on the General Fund Balance**
- **Statement of Total Recognised Gains and Losses (STRGL)**
- **Balance Sheet**
- **Cash Flow**

Each is preceded by a short note describing its purpose, and they are followed by notes explaining figures in the statement.

This main section is followed by three supplementary statements:

- **Housing Revenue Account (HRA)**
- **Collection Fund**
- **Group Accounts**

These are accounts the Council is required to keep by statute and each one is preceded by notes explaining their purpose and each is followed by explanatory notes.

The accounts also include:

- **The Statement of Responsibilities for the Statement of Accounts** - sets out the respective responsibilities of the Council and the Director of Finance & Performance for the accounts.
- **The Annual Governance Statement** - sets out a framework within which overall governance and internal control are managed and reviewed.
- **The Statement of Accounting Policies** - explains the basis of the figures in the financial statements, and the concepts and policies underpinning the accounts.

Wherever possible, technical accounting terms have been explained either in the main text or in the glossary at the back of this publication. The Council also produces a Summary Statement of Accounts which, whilst having no formal legal standing, aims to remove many of the technicalities of this publication and provide a simplified version of the Council's financial position. These are available at [www.kirklees.gov.uk/you-kmc/kmcbudget/budget.shtm](http://www.kirklees.gov.uk/you-kmc/kmcbudget/budget.shtm). In addition, extracts are published in the Council's autumn edition of 'Kirklees Together' which is circulated to each household in the district.

### Financial Performance of the Council

#### Revenue Budget

The Revenue Budget for 2009/10 was approved on 25 February 2009, following an extensive planning process which began in the autumn of 2008. The Budget was set at £344.9 million (including parish precepts), after the planned use of General Fund balances of £7.0 million, delivering a Council Tax increase of 3.5%. The Budget was set as part of the Medium Term Financial Plan (MTFP), which was prepared in the context of clear Corporate Improvement Priorities. These priorities are derived from the ambitions of the Council, the related Local Area Agreement priority investment areas and the change programmes that cut across the ambition themes.

During the year, the Budget was increased by £13.1 million to take account of additional budgets agreed as part of the 2008/09 "Rollover" process. Subject to certain conditions, this is a process where unspent budgets and slippage on specific schemes in one year can be carried forward into following years. The net revenue budget was therefore increased to £358.0 million (including parish

## EXPLANATORY FOREWORD

precepts), before the use of balances of £20.1 million. In addition, as part of the 2010/11 Budget process, earmarked reserves were reviewed and £0.5 million was transferred from general balances to an earmarked reserve specifically to address adverse weather risk.

### Actual Revenue Expenditure

The Council's revenue expenditure is summarised in two of the core statements. The first is the Income and Expenditure Account, which summarises revenue expenditure according to accounting conventions used in the private and other sectors. However, the law relating to local government finance and council tax requires different treatment for a range of factors. The second statement, the Statement of Movement on the General Fund Balance, adjusts the surplus/deficit on the Income and Expenditure Account for statutory overrides and shows how the financial performance for the year has impacted on the Council's general balances. It is this that reflects usable resources for Council Tax and budget planning purposes.

For 2009/10, the UK GAAP element of the Council's Income and Expenditure Account shows an operating loss of £50.0 million (2008/09 restated loss of £193.7 million). The decrease in the loss from 2008/09 is largely due to the one-off previous year impairment charge (£134.4 million) arising from asset values falling between April 2008 to March 2009. Due to its magnitude, this charge is shown as an exceptional item on the face of the Income and Expenditure Account.

After taking account of the appropriate statutory adjustments (relating to capital financing, payments to the government pool for capital receipts, and accounting for retirement benefits), the Statement of Movement on the General Fund Balance shows a final reported deficit for the Council of £15.6 million (2008/09 £6.2 million surplus). This is consistent with the Council's medium term financial planning as outlined above.

	Original Estimate	Revised Estimate	Actual Expenditure	Variance from Revised Estimate
	£000s	£000s	£000s	£000s
Kirklees Net Revenue Expenditure	355,972	369,622	364,536	-5,086
Parish Precepts	445	445	445	0
	356,417	370,067	364,981	-5,086
Amounts met from General Government Grant, NNDR and local taxpayers	349,432	349,432	349,371	61
Decrease/ Increase (-) in General Fund Balances	6,985	20,635	15,610	-5,025

A report on the Council's financial outturn was presented to the full Council meeting on 23 June 2010. The Council was able to manage its financial resources effectively recognising both in year service and longer term resource pressures. In summary, the major variations in 2009/10 were:

- Additional costs within the Children and Young People Service related to safeguarding services and higher number of children requiring care (£4.8 million)
- Additional costs associated with exceptional adverse weather (£0.9 million)

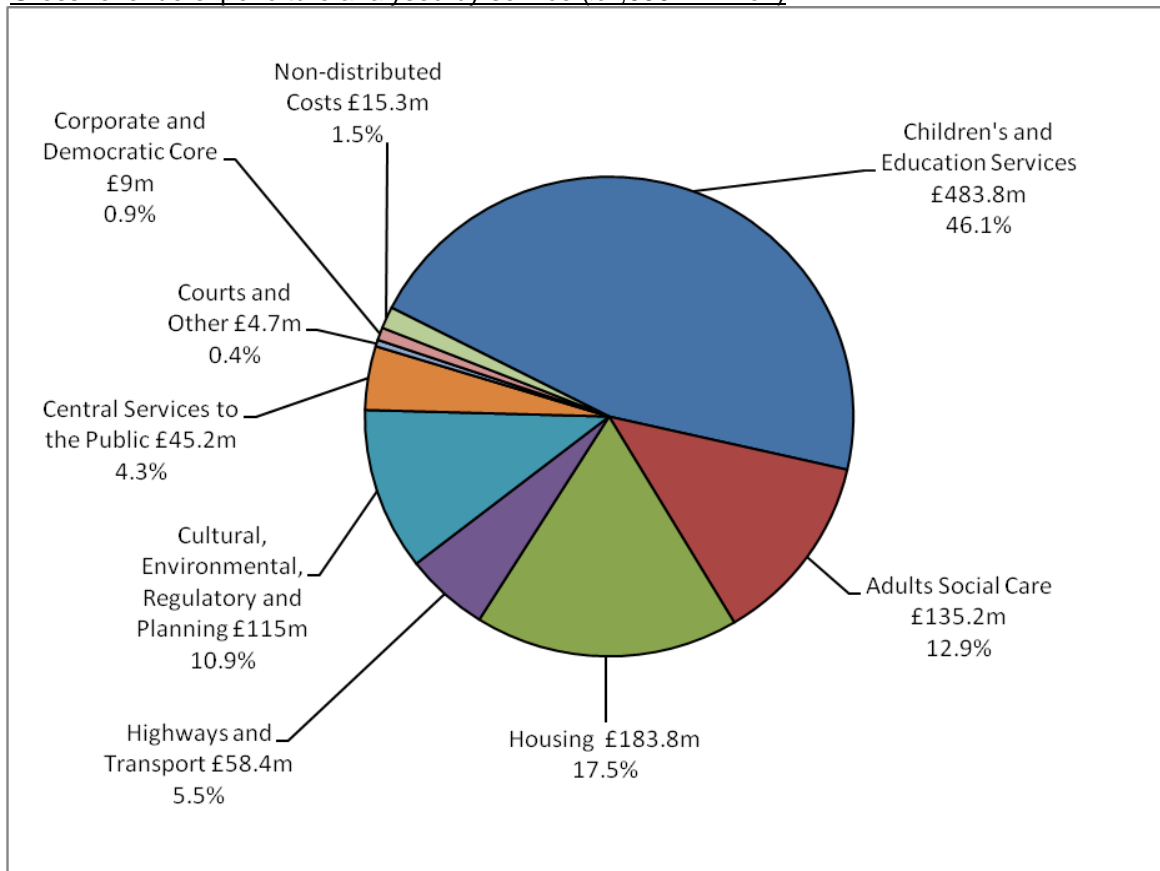
The above overspendings were able to be contained by savings from:

- Lower inflation and pay awards
- Delays on a number of one off programmes

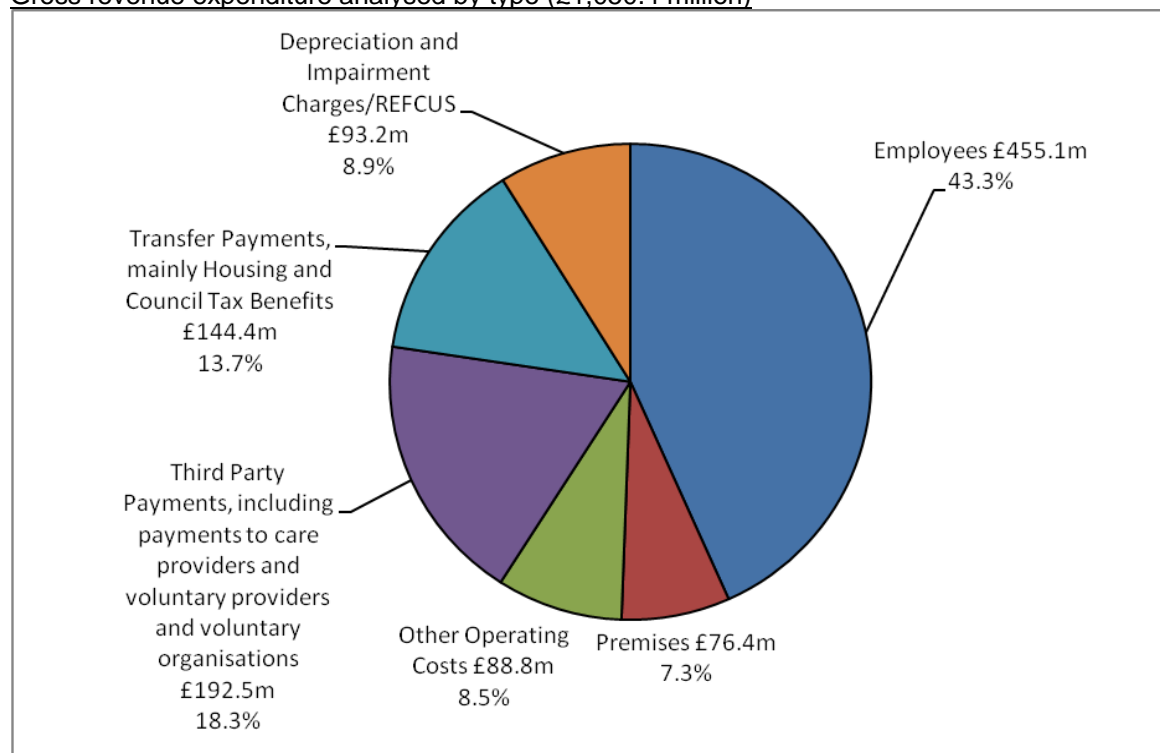
In addition, a range of smaller under and overspends were contained within the Council's directorate budget plans. As in previous years, where committed initiatives will slip into the new financial year, resources were transferred as part of the "Rollover" process.

The charts below illustrate how the Council spent its money (by service and by type of expenditure) and where the money came from to fund this expenditure.

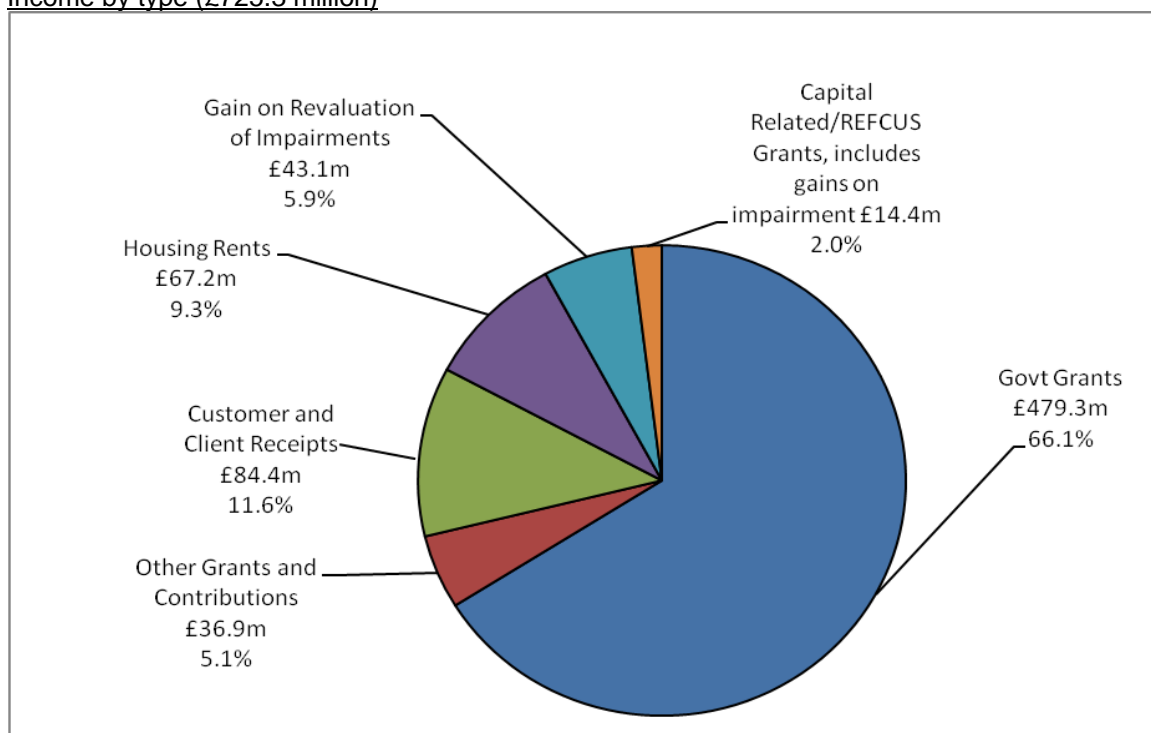
Gross revenue expenditure analysed by service (£1,050.4 million) –



Gross revenue expenditure analysed by type (£1,050.4 million) -



Income by type (£725.3 million) -



Efficiency targets were set nationally for Local Government to generate additional efficiency gains of over 3% in 2009/10. This expectation is likely to rise in future years as settlements respond to the Government's commitment to reduce the public sector deficit. The Council reported savings in 2009/10 of over £20 million in accordance with the national reporting regime, which was above the 3% national average target. These savings have been reinvested in service improvements and other corporate priorities, as well as contributing to keeping Council Tax rises below those of many other councils.

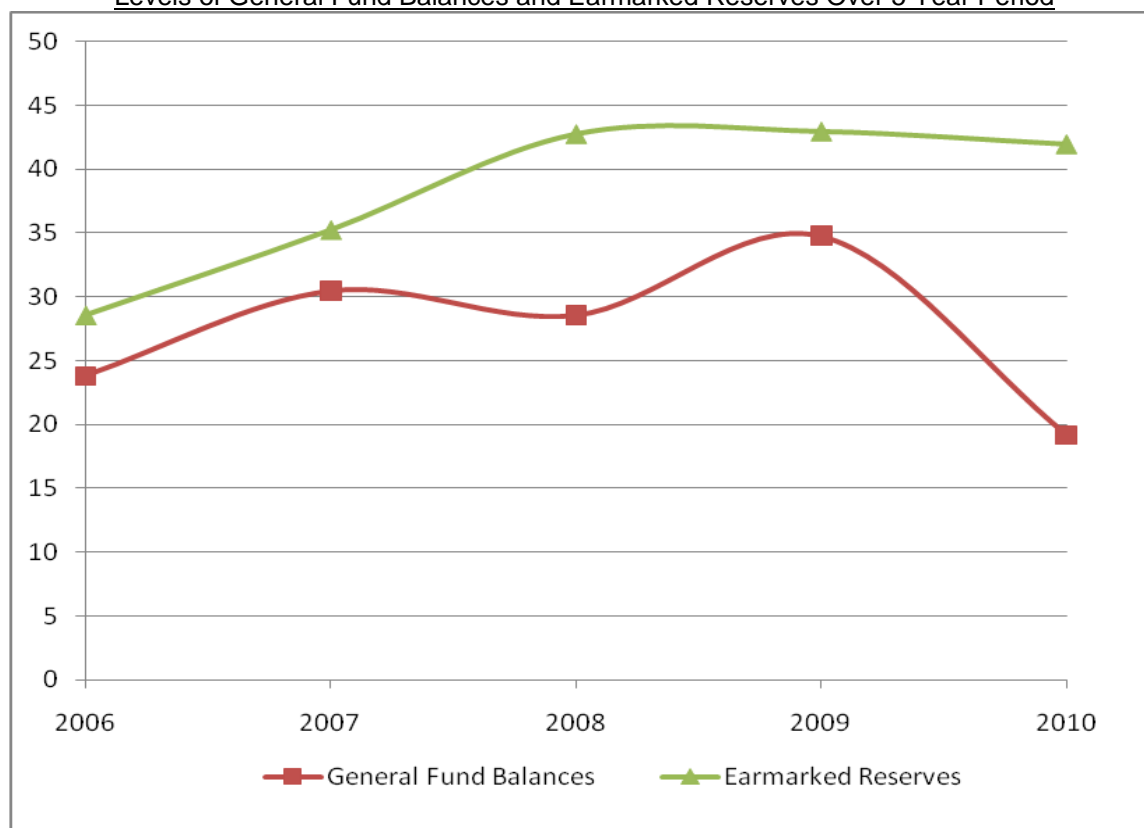
Earmarked Reserves and Balances

The General Fund Balance at 31 March 2010 was £19.2 million, of which £5.0 million is required as the minimum level. Use of balances above this minimum level is determined within the Council's Medium Term Financial Plan, which was updated by Council in February 2010. The current level of balances is provisionally allocated as follows:

- Planned/ phased use in Medium Term Financial Plan      £9.2 million
- Rollover – to be used in 2010/11 revised budget            £5.0 million
- Balances retained for unforeseen risks                        £5.0 million

The Council's earmarked reserves fell by £1.0 million during the year to £41.9 million. With the changes to the accounting treatment of PFI schemes, the reserves now include a non-cash reserve of £6.3 million which cannot be drawn upon. The remaining reserves cover specific areas of activity and risk, and include an amount of £10.2 million (2008/09 £12.3 million) relating to schools' balances. The fall in these is consistent with plans to reduce the number of schools with balances above set target levels. An adverse weather reserve has also been set up in the year (£0.5 million) in line with the Council's approved budget report.

Levels of General Fund Balances and Earmarked Reserves Over 5 Year Period



Housing Revenue Account (HRA)

The HRA Income and Expenditure Account shows an operating surplus for the year of £41.7 million (2008/09 deficit of £64.5 million). This surplus is largely due to the part reversal (£32.0 million) of the impairment charge which occurred in 2008-09 as a result of a fall in the value of property. After taking account of the appropriate statutory adjustments (largely relating to capital financing and accounting), the Statement of Movement on the HRA Balance shows a final reported surplus of £1.0 million (2008/09 deficit of £1.8 million), which has been transferred to balances.

The HRA Balance stands at £27.0 million as at 31 March 2010 and this will be used to help sustain a balanced HRA revenue position over the medium to longer term. The balance on the Major Repairs Reserve stands at £19.0 million at 31 March 2010 and will be used primarily to support capital expenditure over future years to help meet decent homes targets.

Collection Fund

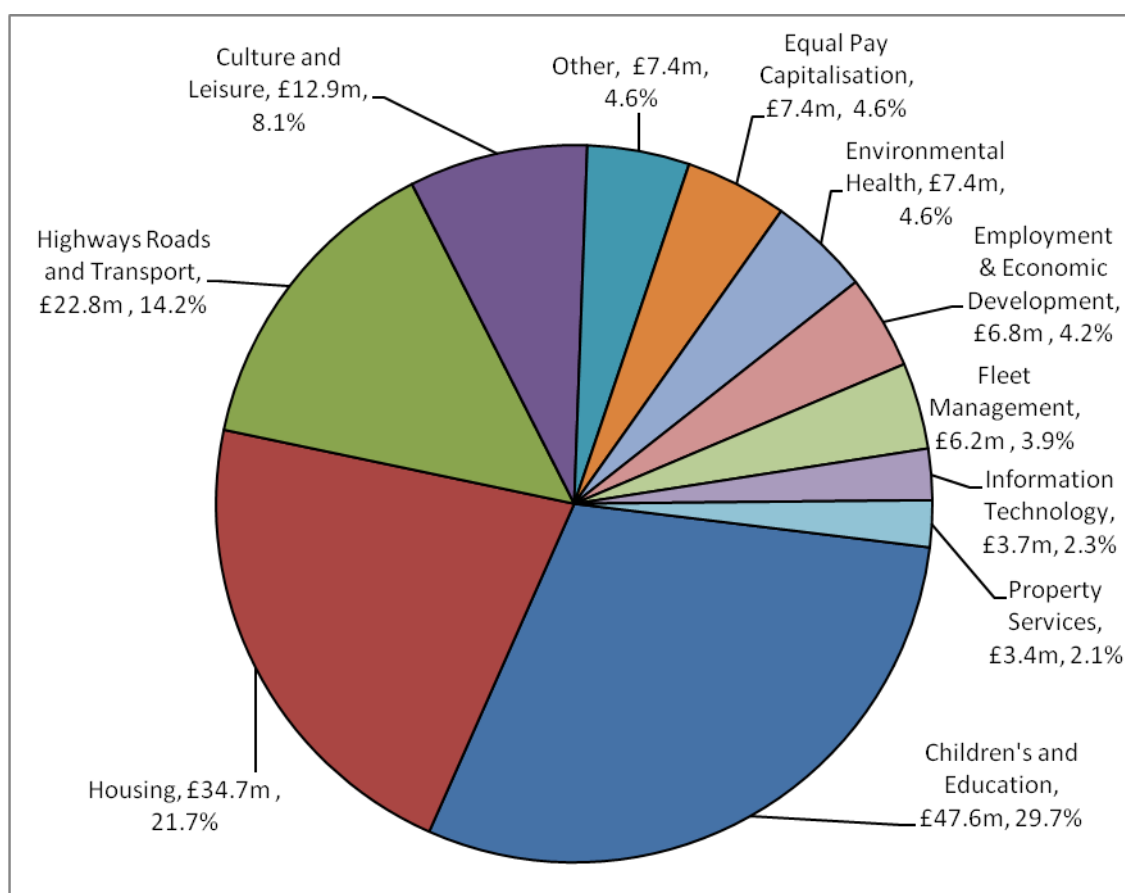
For 2009/10, the Collection Fund showed a deficit of £1.4 million (2008/09 £0.7 million deficit), increasing the negative Collection Fund Balance to £2.3 million. The Balance arises because of differences between estimated and actual amounts raised from total council tax bills. This Balance will be recovered from the Council and precepting authorities in future years. National Non-Domestic Rates do not impact on the Balance as they are paid over to the Government’s national pool and redistributed to authorities based on population. The deficit balance is the result of lower than anticipated levels of Council Tax Income arising from recessionary effects, with lower levels of new properties and increasing arrears. This deficit will need to be replenished in future years and the current MTFP includes provision for this requirement.

The percentage of local taxation bills collected in year remained at 95.6% for Council Tax with arrears outstanding as at 31 March 2010 of £12.3 million (31 March 2009 restated figure of £10.9 million).

Assets

There has been a Prior Year Adjustment in the year as a result of IFRS, to bring PFI Assets and Voluntary Controlled Church Schools onto the Balance Sheet. These amounts totalled £223.6 million for PFI Assets and £113.9 for Voluntary Controlled Church Schools/Other. The value of tangible fixed assets increased during the year by £110.7 million to £2,151.8 million. Capital expenditure on tangible assets in the year was £105.5 million. Capital investment in 2009/10 totalled £160.3 million (2008/09 £113.1 million).

Capital Expenditure in 2009/10 by Service Area (£160.3 million)



Capital investment was funded by borrowing (£84.9 million) or reduced external investments, grants and contributions (£48.7 million), capital receipts (£4.1 million), Major Repairs Reserve (£13.3 million), and revenue (£9.3 million).

Total investments decreased from £99.5 million to £17.4 million with other liquid assets held in deposit accounts and other money market instant access accounts. The reduction in total investments reflects the Council's attitude to risk in the financial markets. To minimise risk the Council has chosen to use available balances to repay earlier borrowing and offset new external borrowing requirements. Included in the balance is an investment in a failed Icelandic Bank. Current indications suggest that the Council will recover around 83% of the monies due.

A report on the Council's treasury management activities was presented to the full Council meeting on 23 June 2010.

Liabilities

Creditors and receipts in advance have increased by £12.5 million.

Total external borrowing during the year increased from £537.5 million to £543.7 million. New long-term borrowing totalling £43.3 million was undertaken in the year and £35.8 million was repaid. The



average interest rate for external borrowing for 2009/10 was 5.63% (2008/09 5.62%). This borrowing included £23.349 million borrowed and lent on to Kirklees College to meet the Council's objectives and to underpin education within Kirklees at the Waterfront development in Huddersfield.

As at 31 March 2010, the Council had £24.0 million of provisions (£23.0 million 31 March 2009). These largely cover estimated liabilities relating to insurance claims and equal pay claims.

The Balance Sheet also contains a net pensions liability of £804.9 million (31 March 2009 £380.1 million). This represents an actuarial assessment of the Council's share of the pension fund assets and the underlying commitment of the Council to pay future retirement benefits. The increase in liabilities of £701.2 million is mainly due to an increase in anticipated life expectancy of current and future pensioner. This is partially offset by increases in the value of scheme assets of £276.4 million.

Whilst the figure is substantial it should be remembered that:

- It is not an immediate deficit that needs to be met now. The sum is the current assessment taking a long-term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement.
- It is not a situation unique to Kirklees Council or local authorities generally. There is a national problem for pension funds in both public and private sectors.
- The West Yorkshire Pension Fund is regularly reviewed and provision has been made for additional contribution to address the deficit over a period of years. Nevertheless the West Yorkshire Pension Fund has indicated that the next review will include consideration of personal contribution rates and benefits.
- Under new regulations, employee contribution rates can change.

The net liability is matched by an appropriate accounting entry under Reserves.

### Group performance

The Council's Group Accounts are made up of the accounts of the Council, two wholly owned subsidiaries and two joint venture companies. The deficit on the Group Income and Expenditure Account for 2009/10 was £50 million (2008/09 £194.4 million). The reasons for the reduction in deficit are the same as those explained above for the Council's Income and Expenditure Account.

### **Accounting Changes**

This year sees the following changes in accounting practices:

- From 2009/10, the accounting requirements for Private Finance Initiative (PFI) contracts are no longer based on the UK accounting standard FRS5 but on International Financial Reporting Standards (IFRS). The Council has three existing PFI schemes and the main implications of the change are that the properties used to deliver the PFI services are required to be recognised on the Council's Balance Sheet, along with a liability for the financing provided by the operator. This is a change in accounting policy requiring prior year adjustments, and as a result £223.6 million of assets have come on balance sheet as at 1 April 2009, together with a finance lease liability of £76.9 million.
- There has been a change in respect of accounting for Council Tax. The billing authority acts as the major preceptors' agent and the 2009 SORP includes detailed requirements for accounting for Council Tax, which include appropriate shares of Council Tax debtors in the billing authorities' and major preceptor' Balance Sheets.
- The 2009 SORP includes detailed requirements for accounting for NNDR, which include a requirement, that billing authorities shall not recognise NNDR debtors in their Balance Sheets but instead recognise a creditor or a debtor for cash collected from NNDR debtors as an agent of the Government.
- Note 12 Remuneration of employees has been amended in line with Regulation 4 of the Accounts and Audit (Amendment No.2) (England) Regulations 2009 [SI 2009 No. 3322] and Regulation 7 of the Accounts and Audit (Wales) (Amendment) Regulations 2010 [SI 2010 No. 683 (W66)]. The intention is to increase transparency in the reporting of remuneration. This effectively means that senior officers whose salary is over £50k are now disclosed by way of

their post title and senior officers whose remuneration is in excess of £150k per year are named.

- After reviewing the Council's assets and consideration of FRS5 - Substance of Transactions, a prior Year Adjustment of £105.4 million has been included to bring 32 Voluntary Controlled (VC) Church schools onto the Balance Sheet. Additionally, a piece of land at Castle Hill Special School has been identified and included as a prior year adjustment of £2.4 million. Five School Sports Centre's and Pavilions have also been identified as a prior year adjustment of £6.2 million.

### **Future developments**

#### Financial Planning

The new Coalition Government has confirmed that reducing the national financial deficit is a top priority and over the summer more details will emerge of how this will impact on Local Government and individual Councils.

Kirklees Council's MTFP already recognises significant pressure associated with deficit reductions and includes significant steps to address this through the Innovation and Efficiency Programme. I consider that this programme is critical to ensuring that Kirklees will be able to respond to changes in funding in a strategic and phased manner to restrict the impact on front line services.

The Council is committed to a range of major developments including a five year capital programme in excess of £674 million, together with a number of PFI and other partnership initiatives. The latter includes an agreed Housing PFI scheme and a medium term partnership arrangement with the Kirklees Community Association (KCA) charity developing housing on the Fieldhead Estate in Birstall.

The Council has received endorsement from Central Government to pursue a contract to build and manage around 500 units of HRA housing, of which approximately 140 will be "extra care" units and 40 will be suitable for tenants with physical disabilities. The scheme is currently at "Preferred Bidder Stage", with 'Financial Close' planned for late 2010/early 2011. The total estimated nominal payments over a contract term of 22.5 years are £255.0 million.

At this point the impact of potential changes in Government funding is becoming clearer and a range of these programmes may be subject to review or change.

#### Accounting

The accounts for 2010/11 will no longer be based on a UK GAAP-based SORP but instead move to a Code based on International Financial Reporting Standards. This will result in significant changes in accounting practice and the appearance and format of the accounts:

- Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation.
- The main financial statements will change, with additional requirements for segmental reporting.
- There is a greater emphasis on component accounting.
- Property leases are classified and accounted for as separate leases of land and buildings, and other arrangements will need to be assessed to see if they contain the substance of a lease.
- Investment properties are measured at fair value, with gains and losses recognised in Surplus and Deficit rather than through the Revaluation Reserve.
- Impairment losses will be taken initially to the Revaluation Reserve.
- The Code introduces a new classification of non-current assets held for sale.
- All employee benefits are accounted for as they are earned.
- The definition of associates is based on the ability to control rather than actual control, and may lead to a change in the group boundary.

The Council started preparing for this change at the beginning of 2009 and further guidance is being developed by CIPFA.

### **Further Information**

The preparation of the Statement of Accounts is a statutory requirement and local authorities are required to have them approved by Members by 30 June and published with an Audit Certificate by 30 September following the end of the financial year. This Statement of Accounts was approved by the Corporate Governance and Audit Committee at its meeting on 30 June 2010.

The Council also publishes a number of other useful documents on its website, including the Council's Performance Plan, last Comprehensive Performance Assessment, and the Kirklees Local Area Agreement. These documents, together with the Statement of Accounts, all help towards reporting on the Council's stewardship of public funds.

These documents will be replaced in due course as the new Government's policy announcements have major implications for the regulatory and performance regimes under which they have been prepared.

### **Acknowledgements**

I wish to thank colleagues in the Strategic Finance Service and finance staff in every service area for their hard work, commitment and skill in completing this Statement of Accounts and all the supporting information.

A Lythgo,  
Chief Executive and Section 151 Officer

## STATEMENT OF RESPONSIBILITIES AND CERTIFICATE

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### **The Council's Responsibilities**

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance & Performance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

### **The Director of Finance & Performance's Responsibilities**

The Director of Finance & Performance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this Statement of Accounts, the Director of Finance & Performance has:

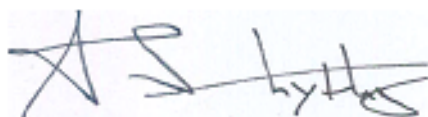
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Director of Finance & Performance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **Certificate**

I certify that this Statement of Accounts presents a true and fair view of the financial position of Kirklees Council at 31 March 2010, and its income and expenditure for the year then ended.



29 September 2010

I certify that this Statement of Accounts was approved by the Corporate Governance and Audit Committee on 30 June 2010.



John Smithson  
Chair, Corporate Governance and Audit Committee

John Smithson  
Chair, Corporate Governance and Audit Committee

30 June 2010

## 1. **SCOPE OF RESPONSIBILITY**

Kirklees Council is responsible for ensuring that its business and that of its related companies is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

This Statement also applies to the Council's two wholly owned subsidiaries (Kirklees Neighbourhood Housing Limited and Kirklees Metropolitan Development Company) and three joint venture companies (Kirklees Henry Boot Partnership Limited, Kirklees School Services Limited and Kirklees Stadium Development Limited).

## 2. **THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2010 and up to the date of approval of the Annual Report and Statement of Accounts.

## 3. **THE FRAMEWORK**

The key elements of the systems and processes that comprise the Council's governance arrangements include:

- identifying and communicating the Council's vision of its purpose, its shared priorities with its partners and intended outcomes for citizens and service users
- reviewing the shared priorities and their implications for the governance arrangements
- measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources

- defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication
- developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff, reviewing and updating standing orders, contract & financial procedure rules, a scheme of delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls required to identify and manage risks / Risk Management Strategy
- the Director of Finance & Performance (as was his predecessor (April to July 2009) is professionally qualified and reports directly to the Chief Executive as a member of the Executive Management Group in accordance with the governance requirements of the five principles that define the core activities and behaviours that belong to the role in the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010).
- the Corporate Governance & Audit Committee, which operates in accordance with best practice including ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful, application of the Anti Fraud & Corruption Strategy
- incorporating good governance arrangements in respect of partnerships and other group working and reflecting these in the Council's overall governance arrangements. The Director of Finance & Performance monitors and reports on the financial effectiveness of the subsidiary and joint venture companies, whose Accounts are subject to external audit, albeit that the joint venture companies have a different financial year. In addition the Council provides an Internal Audit service to Kirklees Neighbourhood Housing Limited and the Company's governance arrangements include an Audit Committee.

#### 4. **REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of internal auditors and executive managers who have responsibility for the development and maintenance of the governance environment, and also by comments made by the external auditors and other review agencies and inspectorates. The review of the effectiveness of the system of internal audit is informed by the work of the external auditors and the Corporate Governance & Audit Committee.

Annual Council reviewed the Constitution, including revisions to the Standards Committee membership and Council, Contract & Financial Procedure Rules and agreed revisions recommended by the Corporate Governance & Audit Committee. A revised Protocol for Members of the Licensing Committee has been introduced and the one for Planning & Committees is under review.

For the final time in 2009, the Council appointed the Leader, Cabinet, Committee Chairs and Council representation to outside organisations. Following the May 2010 elections the Council has implemented a revised executive form with an indirectly elected leader, for a four year term, and Cabinet as per the Local Government & Public Involvement in Health Act 2007, although in practice the Leader has given an undertaking that he will put himself forward for re-election after 12 months.

The Cabinet has responsibility for the Risk Management Strategy, as prepared and promoted by the Director of Finance & Performance and for reviewing the effectiveness of the overall arrangements. A process has been established that identifies business risks and appropriate control measures, both at service and corporate level with named managers responsible for risk control and reporting on changes to corporate risk on a regular basis. Understanding of, and adherence to, the process has risen, although it still needs to be embedded further into operational and particularly project management.

The Cabinet and directors are responsible for effective performance management of the Council and for achieving compliance with financial and other targets and objectives set by the Council.

The Council's Internal Audit function reports to the Corporate Governance & Audit Committee, which oversees its work, and also directly to service managers, directors and the Cabinet on its findings. The audit role is of particular significance given that Directors have not been asked to pursue the completion of annual assurance statements about their area of responsibility. Other internal review and inspection agencies also monitor performance, policy and legislative compliance. The Cabinet considers the advice of the external auditor and other review agencies.

The Director of Finance & Performance is responsible for financial monitoring and reporting has been undertaken throughout the year and in relation to the subsidiary and joint venture companies too.

The Corporate Governance & Audit Committee commissioned a review of the Scrutiny function which is a legislative feature of council governance. It contributes to the transparency and accountability of the decision making process and helps to ensure that the best decision is made first time for the people of Kirklees. The Committee recommended that the approach and structure advocated by the Overview and Scrutiny Management Committee be adopted, as it identified clear priorities for strengthening the management of Overview and Scrutiny as well as refocusing on the core roles of Scrutiny, and is an appropriate structure to support the refocus of scrutiny work and represents an effective use of scrutiny resources. This recommendation was approved at Annual Council, as was the revisions being allowed two years to embed before a full evaluation is undertaken.

The Committee also reviewed aspects of the Code of Corporate Governance during the year including

- (a) The purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area.
- (b) Joint working between Members/Officers to achieve a common purpose and clearly defined functions/roles.
- (c) The capacity and capability of members and officers to be effective.

A review of Area Governance has also been instigated.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance & Audit Committee, and a plan is in place to address the areas set out in Section 5 to ensure continuous improvement of the system.

### 5. **SIGNIFICANT GOVERNANCE ISSUES**

The ongoing review of governance and internal control arrangements has identified the following "significant" issues.

- The primary issue facing the Council continues to be the fundamental **impact of the national economic situation** will have on the Local Government Finance Settlement as Central Government seeks to rebalance public expenditure in response to the rapid increase in borrowing following the need to support the banking sector. There appears little doubt that the Council will face significant reductions in revenue support grant over the next three years.

The Council's strategy includes commencing its medium term Innovation and Efficiency Programme to mitigate the impact of these financial reductions on front line services. The MTFP assumes that the I & E initiatives will deliver significant savings to address the financial reductions.

Alongside its I & E Programme, the Council seeks to address a key current performance failing to reduce significant inequalities around **health and educational attainment in parts of the Borough**.

The Directors will continue to work with partners to focus on delivering key outcomes and in particular to pursue the Council's shared priorities. During the 2009-10 financial year this included a sustained focus on narrowing gaps in inequalities between the poorest parts of Kirklees and the Kirklees average.

- The I & E Programme comprises,
  - a top management restructure
  - a new IT Strategy
  - development of a Council wide Customer Strategy
  - a review of procurement
  - a new Asset Strategy
  - consolidation of support services

These programmes will remove duplication and fragmentation in aspects of the Council's business processes and further improve the governance of the Council.

EMG and the Director of Finance & Performance are responsible for the Innovation and Efficiency Programme and assess all the associated risks on a regular basis. There is an inherent risk in the current economic climate and during a period of downsizing that there could be a **diminution of internal control and opportunity for fraud and corruption**. To overcome this risk, Internal Audit has devised their audit programme for the year ahead to help management ensure proper controls remain in place.

Also a programme of fraud awareness and appropriate behaviour refresher training has commenced and will involve managers in key roles such as procurement and licensing or approval of activities.

- Further improvements have also been made in addressing budgetary pressures and financial control. The Council's **overall process for budgetary control is robust and effective but does not yet fully link performance, output and outcome data with financial information, risk management and value for money**. The links in the reporting of these processes are being developed as part of the change programmes.

The Director of Finance & Performance is working to achieve this objective to implement a fully integrated performance management system within the next two years.

- An updated **Delegation Scheme is being developed across the Council**. There is some evidence to suggest that the recording of decisions taken by Officers under the scheme remains incomplete and in need of improvement.

The Directors of Organisational Development and Finance & Performance will be working to further codify formal delegation arrangements during 2010-11 with a view to improving the accountability and transparency of officer decision making across the Council.

- **Procurement** is a devolved activity at present. Responsibility for obtaining value for money rests with budget managers within the overall framework overseen by the procurement function. The procurement workstream of I & E will identify a more corporate approach to procurement.

The Director of Finance & Performance has responsibility for developing the procurement function. The objectives for this development are to achieve savings, for example through determining whether things need to be bought in the first place and if they do, by extended use of framework contracts for example on security. This will be done by developing a more corporate procurement methodology and significantly greater use of



the Marketplace IT system that enables managers to monitor committed as well as actual expenditure, as well as enhancing management information.

- The Council's ambitious agenda for modernising and reforming many aspects of its operations and the impact this has on its **human resources arrangements**, including the implementation of Single Status, is accompanied generally by a series of risks around consistent service delivery and in employee impacts by its application by service managers, as well as achieving anticipated savings, whilst maintaining the confidence of the workforce.
- The changing face of service delivery with greater emphasis on **partnership working** with local and regional bodies and in a variety of settings has been identified as raising issues concerning governance and financial accountability and control.

The Council will continue the process of clarifying and strengthening financial and governance issues relating to its key partners to ensure delivery of its principal objectives.

- Over fifty schools have not achieved fully the **Financial Management Standard in Schools (FMSiS)** by the DCSF deadline, 31 March 2010, of these forty six submissions have yet to be evaluated. 104 of 116 schools that had been the subject of the evaluation during the year reached the required standard.

The Director of Children & Young People Services maintains an overview of the financial health of individual schools with respect to their balances and providing regular financial information.

Overall, we are satisfied that all the Council's arrangements for internal control are at least adequate for their purpose. The improvements identified in this Statement will make our arrangements stronger.



R Vincent CBE  
Chief Executive



M Khan  
Leader of the Council

## STATEMENT OF ACCOUNTING POLICIES

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This section explains the basis of the figures in the financial statements and the concepts and policies underpinning the accounts.

The accounts have been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2009 (the Code). The Code has been approved as a Statement of Recommended Practice (SORP). The accounting convention adopted is historical cost, modified by the revaluation of fixed assets and some stock carried at current cost. The following accounting concepts have been applied and policies adopted in preparing the financial accounts:

### **FUNDAMENTAL ACCOUNTING CONCEPTS**

Qualitative characteristics of financial information:

- (i) **Relevance** - the accounts have been prepared with the objective of providing information about the Council's financial performance and position that is useful for assessing the stewardship of public funds and for making economic decisions.
- (ii) **Reliability** - the financial information is reliable as it has been prepared so as to reflect the reality or substance of the transaction and activities underlying them, rather than their legal character (Substance over Form); is free from deliberate or systemic bias; is free from material error; and has been prudently prepared.
- (iii) **Comparability** - in addition to complying with the Code, the accounts also comply with the Best Value Accounting Code of Practice, which establishes proper practice with regard to consistent financial reporting and aids comparability with other local authorities.
- (iv) **Understandability** - these accounts are based on accounting concepts, treatments and terminology which require reasonable knowledge of accounting and local government. However, all reasonable efforts have been made to use plain language and technical terms have been explained in a glossary.
- (v) **Materiality** - the concept of materiality has been used in preparing the accounts, so that items under an acceptable tolerance level may be omitted, provided that in aggregate their exclusion would not be expected to influence assessments of the authority's stewardship, economic decisions, or comparisons with other entities, based upon these financial statements. Whether an item (or items considered in aggregate) is material will depend on the size and nature (including the legality and sensitivity of information, and its effect on other transactions) of the item in question, judged in the circumstances of the case.

Pervasive accounting concepts:

These concepts play a pervasive role in the financial statements, and hence in the selection and application of accounting policies and estimation techniques and the exercise of professional judgement.

- (i) **Accruals** - the financial statements, other than the cash flow information, are prepared on an accruals basis. This means that expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not as money is paid or received.
- (ii) **Going Concern** - the accounts have been prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.
- (iii) **Primacy of legislative requirements** - it is a fundamental principle of local authority accounting that, when specific legislative requirements and accounting principles conflict, legislative requirements shall apply. However, such conflicts are usually dealt with by the SORP by showing the position required by following accounting concepts in the Income and Expenditure Account and showing the effect of the legislative requirements in the Statement of Movement on the General Fund Balance.

### **ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES**

Accounting policies are the principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements of the Council. Consistent accounting policies have been applied both within the year and between years. Where accounting policies have been changed, the reason and effect will have been separately disclosed.

## STATEMENT OF ACCOUNTING POLICIES

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Estimation techniques are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. Accounting policies detail any estimation techniques used.

### **Accruals**

Sales, fees, charges and rents are accrued and accounted for in the period to which they relate. Such transactions are only recognised when a right to consideration exists due to the performance of a contractual obligation. Payments received in advance of such performance have been recognised as a liability on the balance sheet. Employee costs are charged to the accounts of the period within which the employees worked. Interest payable on external borrowings and interest income is accrued and accounted for in the accounts of the period to which it relates on a basis which reflects the overall economic effect of the borrowings. Supplies and services are accrued and accounted for in the period during which they were consumed or received. Accruals have been made for all material sums unpaid at the year end for goods and services received or work completed.

### **Area Based Grant (ABG)**

From 2008/09, Local Area Agreement (LAA) Grant and some smaller grants have been replaced by Area Based Grant (ABG). ABG is a non-ringfenced grant, that is there are no conditions imposed on use as part of the grant determination, ensuring full local control over how funding can be used. Also, unlike LAA Grant, ABG is paid directly to the authority that benefits from the grant, rather than being paid to the upper-tier authority for the area in the capacity of "accountable body" for onward distribution. ABG is classified as a general grant and is therefore included in the Income and Expenditure Account with other general sources of income such as income from the Collection Fund.

### **Collection Fund**

The transactions of the Collection Fund are wholly prescribed by Legislation.

Revenue Support Grant and amounts distributed from the NNDR national pool are paid directly to the Authority and are disclosed on the face of the Income and Expenditure account. Parish precepts are paid by the Authority and shown on the face of the account. The year end surplus or deficit on the Collection Fund is to be distributed between billing and precepting authorities on the basis of estimates made on 15 January of the yearend balance.

### **Contingent Assets and Liabilities**

Any contingent assets and liabilities are not included in the accounting statements, but are disclosed by way of notes.

### **Events after the Balance Sheet Date**

Any material events after the balance sheet date which provide additional evidence relating to conditions existing at the balance sheet date, or indicate that application of the going concern concept is not appropriate, have been included in the accounts. Any material events after the balance sheet date which relate to conditions which did not exist at the balance sheet date have been disclosed in a separate note to the accounts.

Events after the balance sheet date are reflected up to the date when the Statement of Accounts were authorised for issue.

### **Exceptional Items, Extraordinary Items and Prior Year Adjustments**

Any exceptional items are included in the cost of service to which they relate or on the face of the Income and Expenditure Account if such a degree of prominence is necessary to give a fair presentation of the accounts. Details of such items are given in the notes to the accounts.

Any extraordinary items are disclosed on the face of the Income and Expenditure Account, after dealing with all the items within the ordinary activities of the Authority, and are explained fully in the notes.

Material prior year adjustments arising from changes in accounting policies or from the correction of fundamental errors have been accounted for by restating the comparative figures in the financial statements and notes. The cumulative effect of any adjustments is noted at the foot of the STRGL, if appropriate.

## STATEMENT OF ACCOUNTING POLICIES

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### **Financial Instruments**

#### Financial Liabilities

Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For many of the borrowings of the Council, the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading losses over the life of the replacement loan and gains over a similar period up to a maximum of ten years. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

#### Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most loans given and investments, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year specified in the contract.

When soft loans are made (loans charged at a rate of interest less than market rate), a loss should be recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Statutory provisions neutralise the impact of soft loans on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains/losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

#### Available-for-Sale Assets

These assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate for the instrument. Where there are no fixed or determinable payments, income (for example, dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. None of the Council's equity interests have quoted market prices and these are measured using discounted cash flow analysis or other valuation

## STATEMENT OF ACCOUNTING POLICIES

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techniques. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses. The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains/losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

### Instruments entered into before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are covered in the Contingent Liabilities note.

### **Grants and Contributions**

Revenue grants and contributions are credited to income in the same period in which the related expenditure was charged. Where the acquisition of an asset is financed either wholly or in part by a grant or contribution, the amount is credited initially to the Grants Deferred Account and written off in the service revenue accounts over the useful life of the asset to match the depreciation of the asset to which it relates.

### **Group Accounts**

The Council has material interests in companies and other entities that require it to prepare group accounts. In the Council's own single-entity accounts, the interests in and transactions with companies and other entities are recorded as investments and under related party transactions respectively.

### **Intangible Assets**

These are non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the authority through custody or legal rights. Purchased intangible assets (i.e. software licences) are capitalised, brought onto the balance sheet at cost and amortised over the period benefit is received (between 3 and 10 years). Straight-line amortisation has been adopted and it is assumed that residual value is insignificant or nil. Intangible assets are reviewed annually for impairment.

All services are charged with a provision for amortisation and, where required, any related impairment loss, for all intangible assets used in the provision of the service.

Internally developed intangible assets are only capitalised where there is a readily ascertainable market value, and software development costs that are directly attributable to bringing a computer system into use, are treated as part of the related hardware rather than as a separate intangible asset.

### **Landfill Allowance Trading Scheme (LATS)**

The Council has adopted the accounting treatment in the proposed "Urgent Issues Task Force" Abstract on Emission Rights. Allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority, are recognised as current assets, valued in the balance sheet at lower of cost and net realisable value.

Allowances issued by DEFRA are initially recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated.

## STATEMENT OF ACCOUNTING POLICIES

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As landfill is used, a liability is recognised. This liability is discharged by using allowances, paying a cash penalty to DEFRA or a combination of both. The liability is measured at the market value at the balance sheet date of the number of allowances estimated to be needed to cover actual biodegradable municipal waste disposed to landfill in the year.

### **Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased items transfer to the Authority. Rental payments are apportioned between the finance charge and the reduction of the outstanding lease obligation (deferred liability). Fixed assets recognised under finance leases are accounted for using policies applied to Tangible Fixed Assets.

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rental payments under operating leases are charged to revenue on a straight line basis over the term of the lease.

Any rental income received by the Council acting as a lessor is recognised on a straight line basis over the period of the lease.

### **National Non Domestic Rates (NNDR)**

Under the 2009 SORP the NNDR taxpayers' debtor and creditor balances and impairment allowance for doubtful debts are not Balance Sheet items of the billing authority since it acts as an agent of the Government when collecting NNDR. It does not represent an actual debtor/creditor position between a billing authority and the Government: it is simply part of the mechanism for determining the instalments by which the billing authority pays over the NNDR taxpayers' cash to its principal, the Government.

Under the 2009 SORP the correct debtor/creditor position that needs to be recognised in the billing authority's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of the billing authority's cost of collection allowance) that has not yet been paid to the Government or has been overpaid to the Government on the Balance Sheet date.

No prior year adjustment to the Income and Expenditure Account or Statement of Movement on the General Fund Balance would usually be required in respect of NNDR income since the accounting policies followed by billing authorities will usually be in accordance with those required by the 2009 SORP.

### **Overheads**

In accordance with current CIPFA guidelines, the costs of support services are recovered from users either by charges under service level agreements or by cost apportionments (based on time spent or usage). The costs of the Corporate and Democratic Core and of Non Distributed Costs are allocated to discrete headings and are not apportioned to services.

### **Pensions**

Accounting for pensions is carried out in accordance with FRS17. FRS17 requires an authority to look beyond its commitment to pay contributions to pension funds and to determine the full longer-term effect that the award of retirement benefits in any year has had on the authority's financial position. Inclusion of the attributable share of the fund assets and liabilities does not mean that legal title or obligation has passed to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit via reduced contributions from a surplus in the scheme.

FRS17 only applies to defined benefit pension schemes that is those where retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits. Defined contribution pension schemes, that is where an employer pays fixed amounts into the scheme and has no obligation to pay further amounts if the scheme does not have sufficient assets to pay employee benefits, are accounted for by charging employer contributions to revenue as they become payable.

## STATEMENT OF ACCOUNTING POLICIES

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The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers – This scheme is administered by the Teachers' Pensions Agency (TPA). Although the scheme is unfunded, meaning it has no investment assets, the TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For this reason the SORP allows this scheme to be accounted for on the basis of a defined contribution scheme. Therefore the pensions cost reported within Net Cost of Services is equal to the contributions payable to the scheme for the accounting period. An asset or liability is recognised only to the extent that there may be prepaid or outstanding contributions at the balance sheet date.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. These benefits have been accrued in the pensions liability.

Other Employees - Other employees, subject to certain qualifying criteria, are eligible to join the West Yorkshire Pension Fund, which is part of the national Local Government Pension Scheme (LGPS). This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets over the long term.

FRS17 requires the following:

- the recognition of the net asset/ liability and a pensions reserve in the Consolidated Balance Sheet;
- current service (pensions) cost, past service costs, gains and losses on settlements and curtailments to be charged in the Net Cost of Services section of the Income and Expenditure Account;
- interest cost (pensions) and expected return on assets to be charged in the Net Operating Expenditure section of the Income and Expenditure Account;
- reconciling entries in the Statement of Movement on the General Fund Balance which ensures that FRS17 remains neutral in terms of its impact on Council Tax levels;
- actuarial gains and losses between years being recognised in the Statement of Total Recognised Gains and Losses.

The attributable assets of the LGPS have been measured at fair value. These valuations are either objective (requiring reference to published market information) or based on the opinion of an expert valuer. Assets include current assets, such as debtors and cash, as well as the investment portfolio.

From 2008/09, the Council adopted the amendment to FRS17, *Retirement Benefits*. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than market value.

Liabilities largely comprise benefits promised under the formal terms of the pension schemes, but also include any discretionary benefits offered. The attributable liabilities of each scheme have been measured on an actuarial basis using the projected unit method. Scheme liabilities have been discounted at a rate that reflects the time value of money and the characteristics of the liability. The discount rate is based on the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities.

Changes to the LGPS permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. The figures in this year's Statement of Accounts have been prepared using information provided by our actuary based on the 2008/09 take-up of increased lump sum payments, that is 57% of employees retiring took advantage of this change to the pension scheme.

## STATEMENT OF ACCOUNTING POLICIES

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### **Private Finance Initiative (PFI) and similar contracts**

Previous to 2009-10, the SORP requires these to be accounted for in accordance with FRS5 *Substance of Transactions*. SORP 2009 requires such contracts to be accounted for in a manner that is consistent with the adaptation of IFRIC12 *Service Concession Arrangements* contained in the government's Financial Reporting Manual and this will assist in the transition to International Financial Reporting Standards for 2010/11.

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the service passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the fixed assets used under the contracts on the Balance Sheet.

The Council has three PFI schemes –

- A twenty five year contract from April 1998 for waste disposal services
- A thirty two and a half year contract, starting March 2001, for major repairs/ refurbishment and continuing maintenance of nineteen schools, together with caretaking and cleaning services
- A twenty six and a half year contract, starting March 2005 for the new build of two special schools and full refurbishment of existing buildings at a third special school, together with the maintenance of buildings and premise management functions at all three schools

The original recognition of the fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The liabilities on the schools' contracts were written down by initial capital contributions of £2.5 million on the first contract and £5.0 million on the second. Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into the following elements:

- Fair value of services received during the year – debited to the relevant service in the Income and Expenditure Account
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account
- Payment towards liability – applied to write down the Balance Sheet liability
- Lifecycle replacement costs – recognised as fixed assets on the Balance Sheet

The Council receives an annual PFI Grant from Central Government which has been treated as a general revenue grant within the Income and Expenditure Account.

Under the waste disposal contract, the operator receives a significant part of their income from third parties, either from gate fees, sale of energy production or recycled materials. A proportion of the assets on the Balance Sheet are therefore financed with third party revenues rather than with fixed payments from the Council. A balancing credit, pro rata to the proportion of fixed payments from the Council and expected third party payments, has been created in the form of a Deferred Income balance. This effectively represents the benefits that the Council is deemed to receive over the life of the contract through its control of the services provided through use of the property and plant. The Deferred Income is released to the Income and Expenditure Account over the life of the contract, with a corresponding appropriation from the Capital Adjustment Account to the Statement of Movement on the General Fund Balance.

The Council has no similar contracts that require accounting for in line with the above policy.

### **Provisions**

Provisions have been made in the accounts for liabilities or losses which are likely to be incurred or certain to be incurred, but uncertain as to the amounts or dates on which they will arise. Provisions are charged to the relevant service account and reviewed annually to determine their appropriateness. The biggest provision is for insurance claims. The insurance provision (now part of the organisational risk provision) represents most likely liabilities, determined in light of advice from actuaries.



## STATEMENT OF ACCOUNTING POLICIES

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The Council has also made provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the implementation of its equal pay strategy.

### **Provisions for Bad and Doubtful Debts**

The carrying amount of debtors is adjusted for provisions for doubtful debts, and known uncollectable debts have been written off in full. The main provisions are for debts relating to Council Tax, Non-Domestic Rates and Housing Rents. 44% (40% in 2008/09) of all outstanding debts on Council Tax and 40% of all outstanding debts on Non-Domestic Rates that are less than a year old are provided for, and these factors are increased for every year of outstanding debt until all debts over six years are fully provided for on Council Tax and seven years on Non-Domestic Rates. There has been a change in estimation technique in relation to the percentages used for bad debt provision – if the 2008/09 provision had been calculated in the manner used in 2009/10, this would have resulted in a provision which was £775k lower.

The Housing Rents' bad debt provision has been calculated on the basis of 20% of all current tenants' arrears and 90% of all former tenants' arrears being provided for.

### **Reserves**

These are amounts set aside for purposes falling outside the definition of provisions. Transfers to and from reserves are shown in the STRGL and not within the Income and Expenditure Account. For each reserve established, the purpose, usage and basis of transactions are clearly identified.

The Council has both Capital and Revenue Reserves, some of which can be used to support expenditure and others which have been established for other purposes. The Usable Capital Receipts Reserve is a reserve established for specific statutory purposes. The Major Repairs Reserve is required by statutory provision, established in relation to the HRA. The Revaluation Reserve and FRS17 Pensions Reserve are kept to manage the accounting processes for tangible fixed assets and retirement benefits, and do not represent usable resources for the Council.

### **Revenue Expenditure funded from Capital under Statute**

Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the authority, and amounts directed under section 16(2) of part 1 of the Local Government Act 2003. Such expenditure should be charged to the Income and Expenditure Account in accordance with the SORP. Where statutory provision allows capital resources to fund the expenditure, it should be debited to the Capital Adjustment Account and credited to the General Fund Balance, showing as a reconciling item in the Statement of Movement on the General Fund Balance.

### **Stocks and Work in Progress**

Stocks are generally shown in the Balance Sheet at historic cost. The main exception to this is Building Services' stocks which are valued at current replacement cost. Work in progress is shown at current cost, including overheads.

### **Tangible Fixed Assets**

#### Recognition and Measurement -

All expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised provided that the asset yields benefits to the Council for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged directly to service revenue accounts.

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use.

All HRA properties are valued annually. Other property assets are revalued by means of a five year rolling programme. Assets are valued on the following basis:

## STATEMENT OF ACCOUNTING POLICIES

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Existing Use Value (EUV) - to be used only for valuing property that is owner-occupied by a business, or other entity, for inclusion in Financial Statements.

Existing Use Value – Social Housing (EUV – SH) to be used for inclusion in Financial Statements for housing stock held for social housing.

Market Value.

Depreciated Replacement Cost (DRC) - may be used as a method for reporting the value of Specialised Property in Financial Statements, where more reliable methods cannot be applied.

Assets are classified into the groupings required by the Code and are carried in the Balance Sheet on the following measurement bases as above:

- Non Specialist Operational assets – Existing Use Value
- Specialist Operational assets - DRC
- Council Dwellings – Existing Use Value – Social Housing
- Investment properties and assets that are surplus to requirements – Market Value
- Assets under construction - Historic cost
- Infrastructure assets - Historic cost, net of depreciation
- Community assets - Nominal value

Valuations are carried out on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Notwithstanding the requirement for a formal programme of revaluations, the Council is required to monitor values for unusual upward or downward movements, and liaise with valuers in order to adjust values accordingly. Assets acquired on terms meeting the definition of a finance lease have been capitalised and included together with a liability to pay future rentals. On the inception of the lease, the amount recorded as both an asset and liability is the present value of the minimum lease payments derived by discounting them at the interest rate implicit in the lease.

Where a fixed asset is included in the Balance Sheet at current value, the increase over the previous carrying amount is credited to the Statement of Total Recognised Gains and Losses (STRGL) and taken to the Revaluation Reserve, except to the extent it reverses revaluation losses. Where on revaluation there has been a decrease over the previous carrying amount, an impairment loss has occurred. If the loss in value is considered to be due to clear consumption of benefits, then it should be recognised in the Income and Expenditure Account. If the loss is not associated with a clear consumption of benefits but primarily a fall in prices, then it should be recognised in the STRGL up to the balance held for the asset on the Revaluation Reserve, and thereafter in the Income and Expenditure Account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Depreciation and Impairment -

Depreciation is provided for on all fixed assets except for freehold land, non-operational investment properties and assets under construction. Assets are depreciated on a straight-line basis over their estimated useful lives. Depreciation is calculated on the opening balance sheet values for fixed assets. Residual values are taken into account in the calculation of depreciation, where appropriate. Estimated lives for new assets vary but are mainly as follows:

- |                                      |              |
|--------------------------------------|--------------|
| • Buildings                          | 50 years     |
| • Infrastructure assets              | 20 years     |
| • Vehicles and operational equipment | 5 - 10 years |
| • Computer equipment                 | 3 - 5 years  |

## STATEMENT OF ACCOUNTING POLICIES

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Revaluation gains are also depreciated, with an amount equal to the difference between the current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Assets have been reviewed for any material impairment loss. Those arising as a result of a consumption of economic benefits have been recognised in service revenue accounts. Accounting for impairments of revalued assets is covered above.

### Disposals -

Upon disposal or decommissioning, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 (the de minimis set by regulation) are classed as capital receipts. Assets cannot be revalued immediately prior to disposal. A proportion of capital receipts from housing sales is required to be paid over to Central Government. The amount due is charged to the Net Operating Cost section of the Income and Expenditure Account and the same amount appropriated from the Usable Capital Receipts Reserve and the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

### Charges to the Income and Expenditure Account and STRGL -

All services are charged with depreciation and where required, any related impairment loss, for all fixed assets used in the provision of the service. This includes surplus assets held for disposal, which is charged to Non Distributed Costs. All expenditure on repairs and maintenance relating to fixed assets are charged to the appropriate service revenue account.

Finance costs, including interest payable, are charged to the Net Operating Costs section of the Income and Expenditure Account. The Council is not required to raise Council Tax to cover depreciation or impairment charges. However, it is required to make annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. The basis for charging finance costs to the HRA is the Item 8 Determination contained within Part 6 of the Local Government and Housing Act 1989.

The Income and Expenditure Account is:

- Credited with any revaluation gains that reverse revaluation losses (after allowing for depreciation) on the same asset that were charged to services.
- Debited with revaluation losses associated with an impairment related to a clear consumption of economic benefit.
- Debited with revaluation losses not associated with a clear consumption of economic benefit in excess of the balance on the Revaluation Reserve in respect of that asset.

The STRGL (and the Revaluation Reserve) is:

- Credited with revaluation gains, except to the extent that they reverse previous revaluation losses (after allowing for depreciation) on the same asset that were charged to the Income and Expenditure Account.
- Debited with revaluation losses not associated with an impairment related to a clear consumption of economic benefit up to the balance on the Revaluation reserve in respect of that asset.

### **Value Added Tax**

Value Added Tax is included in the accounts only to the extent that it is irrecoverable and therefore charged to service expenditure as appropriate.

**INCOME AND EXPENDITURE ACCOUNT**

This account summarises the resources that have been generated and consumed in providing services and managing the Council for the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

**Notes to the accounts start on page 34.**

2008/09			2009/10			
Net Expenditure			Gross Expenditure	Income	Net Expenditure	Note
£000s	Restated £000s		£000s	£000s	£000s	1
98,792	104,466	Children's and Education Services	483,796	381,038	102,758	3
99,565	99,565	Adult Social Care	135,237	34,633	100,604	
-14,422	-14,422	Housing	183,785	215,676	-31,891	3
38,666	38,666	Highways and Transport	58,437	18,857	39,580	
83,093	84,186	Cultural, Environmental, Regulatory and Planning	114,970	32,456	82,514	3
7,829	7,829	Central Services to the Public	45,187	37,642	7,545	
453	453	Courts	467	0	467	
704	704	Other Services	4,206	4,173	33	
8,719	8,719	Corporate and Democratic Core	9,016	386	8,630	
2,025	2,025	Non-distributed costs	15,341	412	14,929	3
134,379	134,379	Exceptional Item				2
459,803	466,570	<b>Net cost of services</b>	1,050,442	725,273	325,169	
4,110	4,110	Gains(-)/ Losses on disposal of fixed assets and investments			9,764	4
-182	-182	Other income defined as capital receipts but not arising from asset disposal			-291	
519	519	Precepts and levies			538	5
2,113	2,113	Net surplus(-)/deficit on trading operations			-1,985	6
-8,980	-8,980	Interest and investment income			-2,221	3
31,113	37,069	Interest payable & similar charges			35,045	3
3,213	3,213	Amount payable to the Housing Capital Receipts Pool			1,815	3
17,267	17,267	Pensions interest cost and expected return on pensions assets			31,495	43
508,976	521,699	<b>Net operating expenditure</b>			399,329	
-43,961	-55,319	General grants and contributions			-75,104	14
-144,969	-144,379	Income from the Collection Fund			-150,871	
-128,277	-128,277	Contribution from Non-Domestic Rate Pool			-123,396	
191,769	193,724	<b>Deficit for year</b>			49,958	

**STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. The Account is prepared in line with proper accounting practices, but is out of line with the statutory provisions that specify how local authorities are required to raise Council Tax. The main differences are:

- capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- the payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than Council Tax.
- retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax that it raised for the year, taking into account the use of the reserves built up in the past and contributions to reserves earmarked for future expenditure.

The Statement below reconciles the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2008/09			2009/10
£000s	Restated (note 1) £000s		£000s
191,769	193,724	Deficit from Income and Expenditure Account	49,958
-197,992	-199,947	Net additional amount required by statute and non-statutory provisions to be debited or credited to the General Fund Balance for the year	-34,348
-6,223	-6,223	<b>Increase (-)/decrease in the year in the General Fund Balance</b>	15,610
-28,558	-28,558	General Fund Balance brought forward	-34,781
-34,781	-34,781	<b>General Fund Balance carried forward</b>	-19,171

A detailed breakdown of the additional amounts required by statute and non-statutory provisions to be debited or credited to the General Fund Balance are shown in note 16.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)**

This statement brings together all gains and losses experienced by the Authority during the year, including those not reflected in the Income and Expenditure Account.

2008/09 Restated £000s		2009/10 £000s
-193,724	Deficit on the Income and Expenditure Account for the year	-49,958
37,092	Surplus/deficit(-) arising from the revaluation of fixed assets	55,029
-562	Net movement on available-for-sale financial assets	-167
52,982	Actuarial gains and losses (-) on pension fund assets and liabilities	-399,714
	Other gains and losses -	
0	Movement on Collection Fund Balance	0
-48	Other	-17
<u>-104,260</u>	<b>Total recognised gains and losses(-) for the year</b>	<u>-394,827</u>

**RECONCILIATION OF 2008/09 BALANCE SHEET RESTATEMENT**

As the balance sheet has been restated for 2008/09, the table below reconciles the change between the opening and closing balance sheets for 2008/09. More information in relation to the adjustments can be found in note 1 to the accounts.

2008/09 £000s	
791,688	<b>Net Worth at 31 March</b>
105,365	VC Church schools
6,199	Sports Centres & Pavilions
64,344	PFI asset adjustments
2,350	Land at Castle Hill Special School
119	Collection Fund adjustments
<u>970,065</u>	<b>Net Worth at 31 March</b>

## MAIN FINANCIAL STATEMENTS

### BALANCE SHEET

The Balance Sheet summarises the financial position of the whole Council and shows the value of the Council's assets and liabilities at the year-end.

31 March 2009			31 March 2010		Note
£000s	Restated £000s		£000s	£000s	1
1,374	1,374	Intangible Assets		3,740	22
		Tangible Assets			
		<u>Operational</u> -			23
707,031	707,031	Council Dwellings	745,172		
700,897	1,038,425	Other Land and Buildings	1,086,696		
19,405	19,405	Vehicles, Plant and Equipment	21,437		
163,866	163,866	Infrastructure Assets	180,092		
2,638	2,638	Community Assets	4,864	2,038,261	
		<u>Non-Operational</u> -			24
81,851	81,851	Investment Properties	84,434		
11,589	11,589	Assets Under Construction	4,842		
16,294	16,294	Surplus Assets	24,301	113,577	
67,327	0	Deferred Consideration		0	
10,338	10,338	Long Term Investments		4,428	27
16,193	8,690	Long Term Debtors		28,342	28
1,798,803	2,061,501	<b>Total Long Term Assets</b>		2,188,348	
		Current Assets -			
2,596	2,596	Stocks and Work in Progress	2,277		29
77,095	71,175	Debtors and Payments in Advance	86,273		30
-16,812	-12,354	Less Bad Debt Provision	-13,073		30
0	0	Landfill Allowances	0		31
89,172	89,172	Investments	12,932		32
8,986	8,986	Cash and Bank	26,660	115,069	
1,959,840	2,221,076			2,303,417	
		Current Liabilities -			
-9,065	-9,065	Short Term Borrowing	-18,621		
0	0	Landfill Usage	0		31
-101,988	-103,247	Creditors and Receipts in Advance	-112,925		33
0	0	Bank Overdraft	-6,739	-138,285	
1,848,787	2,108,764	<b>Total Assets Less Current Liabilities</b>		2,165,132	
-528,401	-528,401	Long Term Borrowing		-525,066	
-5,341	-79,422	Deferred Liabilities		-76,531	34
-23,045	-23,045	Provisions		-23,986	35
-120,201	-120,201	Grants Deferred Account		-152,425	36
0	-7,519	Deferred Income		-6,982	37
-380,111	-380,111	Net liability related to defined benefit pension scheme		-804,904	43
791,688	970,065	<b>Total Assets Less Liabilities</b>		575,238	

## MAIN FINANCIAL STATEMENTS

### BALANCE SHEET (continued)

31 March 2009			31 March 2010	
£000s	Restated £000s		£000s	1
903,386	1,026,293	Capital Adjustment Account	1,025,496	38
-3,081	-3,081	Financial Instruments Adjustment Account	-6,801	38
0	-787	Collection Fund Adjustment Account	-2,013	38
-4,700	-4,700	Unequal Pay Back Pay Account	0	38
155,027	204,202	Revaluation Reserve	249,565	38
-164	-164	Available-For-Sale Financial Instruments Reserve	-331	38
7,000	7,000	Capital Receipts Reserve	7,000	38
151	151	Deferred Credits	121	38
-380,111	-380,111	FRS17 Pensions Reserve	-804,904	38
17,590	17,590	Major Repairs Reserve	19,037	38
36,745	42,921	Earmarked Reserves	41,933	38
34,781	34,781	General Fund Balance	19,171	38
25,970	25,970	Housing Revenue Account Balance	26,964	38
-906	0	Collection Fund Balance	0	38
<u>791,688</u>	<u>970,065</u>	<b>Net Worth</b>	<u>575,238</u>	



## MAIN FINANCIAL STATEMENTS

### CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Note 45 to the Core Financial Statements specifically supports this statement.

2008/09			2009/10	
£000s	£000s		£000s	£000s
	Restated			
		<u>Revenue Activities</u>		
53,969	63,179	<b>Net cash inflow from Revenue Activities</b>		40,103
		<u>Dividends from Joint Ventures and Associates</u>		
0	0	<b>Net cash inflow from dividends received</b>		440
		<u>Returns on Investments and Servicing of Finance</u>		
		Cash Outflows -		
-30,751	-30,751	Interest paid	-29,123	
-326	-6,282	Interest element of finance lease rentals	-6,109	
-24	-24	Premiums from early repayment of loans	-82	-35,314
		Cash Inflows -		
9,096	9,096	Interest received	3,525	
18	18	Discounts from early repayment of loans	30	3,555
-21,987	-27,943	<b>Net cash outflow from Investments and Servicing of Finance</b>		-31,759
		<u>Capital Activities</u>		
		Cash Outflows -		
-97,975	-99,070	Purchase of assets	-108,367	
-5,596	-5,596	Long term investments	-26,184	
-820	-820	Other capital cash payments	-541	-135,092
		Cash Inflows -		
6,663	6,663	Sale of fixed assets	5,952	
25,457	25,457	Capital grants received	53,549	
17,222	17,222	Long term investments now less than twelve months	7,000	
1,895	1,895	Other capital cash receipts	669	67,170
-53,154	-54,249	<b>Net cash outflow from Capital Activities</b>		-67,922

**CASH FLOW STATEMENT (continued)**

2008/09			2009/10	
£000s	£000s		£000s	£000s
	Restated			
-21,172	-19,013	<b>Net cash outflow before financing</b>		-59,138
		<u>Management of Liquid Resources</u>		
23,178	23,178	Decrease in short term deposits		76,120
0	27	Net increase(-)/decrease in other liquid resources		-9,207
23,178	23,205	<b>Net cash inflow from Management of Liquid Resources</b>		66,913
		<u>Financing</u>		
		Cash Outflows -		
-14,684	-14,684	Repayments of amounts borrowed (long term)	-35,822	
-22,008	-22,008	Repayments of amounts borrowed (short term)	-30,790	
-181	-2,481	Finance Lease Principal	-2,839	
-211	-211	Repayment of transferred debt	-187	-69,638
		Cash Inflows -		
0	0	New loans raised (long term)	43,349	
25,647	25,647	New loans raised (short term)	29,449	
0	114	New finance lease liability	0	72,798
-11,437	-13,623	<b>Net cash inflow/outflow(-) from Financing</b>		3,160
-9,431	-9,431	<b>Increase/Decrease(-) in Cash</b>		10,935

### 1 Prior Period Adjustments

#### **PFI**

The 2009 SORP requires PFI contracts to be accounted for in line with IFRIC12, as outlined in the Council's accounting policies. The main prior year adjustments required to meet this change are as follows:

#### *Balance Sheet as at 31.03.09*

- £223.6 million of assets, relating to school buildings and waste disposal services, added to Other Land and Buildings.
- A £76.9 million finance lease liability recognised, relating to the financing provided by the PFI operators.
- Recognition of £6.2 million in prepayments to the operators and a corresponding PFI earmarked reserve.
- The creation of a Deferred Income balance of £7.5 million, representing the benefits the Council receives towards the financing of the waste disposal assets from third party income.
- The reversal of entries arising from the previous accounting treatment, relating to Deferred Consideration (£67.3 million) and Long-Term Debtors (£13.7 million).
- Credit adjustments to the Capital Adjustment Account and the Revaluation Reserve of £9.0 million and £49.1 million respectively.

#### *Income and Expenditure Account 2008/09*

- Amounts of £5.7 million and £1.1 million added to the service lines for Children's and Education Services and Cultural, Environmental and Planning, representing additional charges for depreciation on the assets brought on Balance Sheet, removal of PFI grant and the payments relating to the finance lease liability (principal and interest).
- £6.0 million being added to Interest Payable and Similar Charges, relating to interest paid to the operators for the financing of the assets.
- PFI grants of £11.4 million included in the amount for General Grants and Contributions.
- Overall deficit increased by £1.4 million.

#### *Cashflow 2008/09*

- Increase in the Net Cash Inflow from Revenue Activities of £9.2 million.
- Increases in finance lease interest (£5.9 million), purchase of assets (£1.1 million) and Net Cash Outflow from Financing (£2.2 million)

#### *SMGFB 2008/09*

- An increase in the credit balance of £1.4 million, represented by additional charges for the repayment of the liability (£2.3 million), the reversal of depreciation charges (-£6.6 million) and capital grant (£0.5 million), the removal of previous entries relating to deferred consideration (£0.7 million), a revenue contribution to capital expenditure (£1.0 million) and a movement on earmarked reserves (£0.7 million).

Statutory guidance issued for transition to IFRS recommends that MRP be equal to the amount being taken to the Balance Sheet to reduce the liability. Although the guidance comes into effect from April 2009, adjustments have been carried out in line with CIPFA's recommendation in LAAP Bulletin 84 and their transitional guidance on IFRS, which is to adjust past years' differences as prior year adjustments. This treatment increases the usefulness of comparative figures. It should be noted that MRP of £6.9 million was charged up to 31 March 2008 and a further £2.3 million charged in 2008/09.

#### **Voluntary Controlled Church Schools**

After reviewing the Council's assets and consideration of FRS5 - Substance of Transactions, a prior Year Adjustment of £105.4 million has been included to bring 32 Voluntary Controlled (VC) Church schools onto the Balance Sheet. FRS5 requires the substance of transactions,

## NOTES TO THE CORE FINANCIAL STATEMENTS

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such as the right to future economic benefits, to be reflected in the Financial Statements and not just their legal form.

### **Land at Castle Hill**

After reviewing the Council's assets a piece of land at Castle Hill Special School has been identified and included as a prior year adjustment of £2.4 million.

### **School Sports Centres and Pavilions**

Five school sports centres and pavilions have been identified and included as a prior year adjustment of £6.2 million.

### **Council Tax**

The 2009 SORP requires the Council to show the difference between the income included in the Income and Expenditure Account and the amount required by regulation to be debited to the General Fund. The difference is taken to the Collection Fund Adjustment Account and included as a reconciling entry in the SMGFB. The principal changes are:

#### *Balance Sheet as at 31.03.09*

- A reduction in debtors and payments in advance of £1.2 million.
- A reduction in bad debt provision of £1.0 million
- A reduction in creditors and receipts in advance of £0.3 million.
- The creation of a collection fund adjustment account (£0.8 million) to reflect the Council's part of the overall deficit.
- Removal of the Collection Fund balance (£0.9 million).

#### *Income and Expenditure Account 2008/09, SMGFB and Cashflow Statement 2008/09*

- Income from Collection Fund was reduced by £0.6 million, reflecting the difference between the billing authority precept and demand shown in the Collection Fund Income and Expenditure Account in the year and the income included in the Council's Income and Expenditure Account. The corresponding entry is shown in the SMGFB.
- Minor changes on cashflow with a small decrease in other liquid resources and a decrease in Net Cash Inflow from Revenue Activities.

### **National Non-Domestic Rates**

The 2009 SORP has amended the way in which the Authority treats NNDR income. In effect the Authority is acting as an agent for Central Government. The main adjustments are in respect of a reduction in debtors and payments in advance of £4.7 million, and a corresponding reduction in the bad debt provision (£3.4 million) and creditors and receipts in advance (£1.3 million).

## **2 Exceptional Item**

The exceptional item relates to the impairment of assets during 2008/09. As the rolling valuation programme may reverse these impairments each year the amounts will be taken to the Income & Expenditure and credited to services as appropriate up to historical depreciated cost, then thereafter to the revaluation reserve.

## **3 Major variances in the Income and Expenditure Account**

Reasons for unusual decrease and increases in net expenditure between years are largely explained as follows:

- Children's and Education Services – reduction due to a change in the FRS17 pension rate (£4.7 million), increase due to spending on Safeguarding (£5.1million), reduced spending on other ChYPS budgets (£1.2 million), net reduction in Capital Charges, Capital grants & REFCUS (£7.6 million), increase due to an accounting adjustment in relation to a soft loan to Kirklees College (3.7 million), increase due to a revaluation of Church run Schools (£1.7 million), and an increase in PFI schools of (£1.2 million).
- Housing - £10.6 million of specific grants were transferred to general grants offsetting a net reversal of impairment of £30.2 million.
- Culture, Environment, Regulatory and Planning - included a backdated VAT refund for £0.8 million (interest received in respect of this was £0.8 million).

## NOTES TO THE CORE FINANCIAL STATEMENTS

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- Non Distributed Costs - This includes the impact of one off additional pension fund charges associated with workforce restructuring.
- Interest and Investment Income -The Councils investment strategy reduces the level of external investments. This is covered in a detailed report to Council on 23<sup>rd</sup> June.
- Interest Payable - linked to above, external investment reduction.
- There has been a reduction in the number of capital receipts in relation to the Housing Pool. This is due in part to less council tenants buying their homes, due to a lack of mortgage availability.
- Over all services there has been an £11.4 million reduction in pension costs due to a decrease in the FRS17 rate in relation to payments made to the pension fund (note 43).

#### 4 Gains and Losses on disposal of fixed assets and investments

The SORP requires authorities to show gains and losses on asset disposals on the face of the Income and Expenditure Account. The figure for 2009/10 includes the value of council houses demolished as part of housing regeneration projects of £1.4 million (£3.3 million in 08/09) and the value of three schools demolished of £3.1million (£2.7 million in 0809). Also included is the disposal of Vine Street depot (transport) of £4.3 million which is being replaced by a new depot.

#### 5 Precepts and Levies

This represents the following precepts and levies:

2008/09		2009/10
£000s		£000s
456	Parish Precepts	446
63	Environment Agency	92
519		538

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 6 Trading Operations

The Council carries out the following trading operations. These operations are deemed to function in a competitive environment, that is one in which the user has discretion over whether to procure the service from the in-house provider either as part of a periodic tendering procedure or on a continuous basis.

2008/09 Surplus (-)/ Deficit £000s		Expenditure £000s	2009/10 Income £000s		Surplus (-)/ Deficit £000s
8	Cleaning of Buildings	6,970	6,962	(*)	8
-265	Building Services	40,379	40,458	(*)	-79
-193	Highways Direct Services	19,635	19,694	(*)	-59
-6	Legal Services	5,324	5,354	(*)	-30
-53	Estates Management	8,995	8,879		116
-110	Transport Services	11,845	11,335	(*)	510
-18	Catering	13,173	13,284		-111
3,660	Commercial Estates	1,666	2,887	(*)	-1,221
-470	Other Services	7,530	8,021		-491
-440	Dividends	0	628		-628
<u>2,113</u>		<u>115,517</u>	<u>117,502</u>		<u>-1,985</u>
In addition the following trading activities are included within the Net Cost of Services -					
-21	Building Control	833	898		-65
2,574	Markets	2,450	2,234		216
<u>4,666</u>		<u>118,800</u>	<u>120,634</u>		<u>-1,834</u>

The Best Value Accounting Code of Practice requires that material surpluses and deficits on internal trading services must be reapportioned so that costs in the service accounts are not significantly distorted. Figures marked (\*) are after the following refunds and additional charges:

- Cleaning of Buildings – £0.4 million additional charge to the various services
- Building Services - £0.4 million refund mainly to HRA
- Highways Direct Services - £0.2 million refund to Highways
- Legal Services - £0.1 million refund to various services
- Transport Services - £0.9 million refund to the various services
- Commercial Estates - £0.1 million additional charge to various services

The surplus of £111,000 against Catering is shown before the transfer of £179,000 to a reserve to be used to counter the effects of unforeseen events on the service's operations in any one financial year.

The deficits in 2008/09 against the Commercial Estates and Markets Services are shown after major impairment charges were made in respect of reduced property values for both services.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 7 Building Control Charges Regulations

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by Building Control cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control function divided between the chargeable and non-chargeable activities.

2008/09 £000s		2009/10 £000s
	Chargeable	
-940	Income	-898
919	Expenditure	833
-21		-65
	Non Chargeable	
586	Net Expenditure	443
565	Total Deficit	378

### 8 Private Finance Initiative (PFI) Transactions

The 2009 SORP requires PFI contracts to be accounted for in line with IFRIC12, as outlined in the Council's accounting policies. Details of the prior year adjustment required to bring the accounting into line is detailed in note 1. Once recognised on the Balance Sheet, fixed assets held under PFI schemes are depreciated, impaired and revalued in line with the Council's accounting policy on fixed assets. The exception to this is on the PFI for waste disposal, where assets have been revalued by indexation, pending a formal revaluation by valuers.

The Council has three PFI schemes:

#### i) Waste Disposal Services

In April 1998, the Council entered into a twenty five year contract for waste disposal services, with Kirklees Waste Services Ltd (now Sita Kirklees Ltd). The Council leased various sites, including landfill and civic amenity, to the operator and the operator pledged as part of the contract to carry out capital work, which included the building of a new waste to energy plant/recycling centre at Huddersfield and a transfer station at Dewsbury. All assets constructed on leased land come into Council ownership at the end of the contract and these assets must be in a condition which would allow services to continue. Contract payments are part fixed and the other part varies according to tonnages and meeting targets. The Council pays for any additional costs arising from new statutory requirements concerning waste disposal, such as Landfill Tax.

The Council incurred costs of £11.1 million under the contract in 2009/10 (2008/09 £11.7 million) and received £3.2 million in PFI Grant (2008/09 £3.2 million). Details of estimated payments due to be made are as follows:

	Service Charges £000s	Interest Charges £000s	Repayments Of Liability £000s	Other £000s	Total £000s
In 2010/11	9,048	1,379	1,358	415	12,200
Between 2011/12 to 2014/15	36,597	4,522	5,517	2,164	48,800
Between 2015/16 to 2019/20	47,826	3,330	7,135	2,709	61,000
Between 2020/21 to 2022/23	31,157	723	4,720	0	36,600
	124,628	9,954	18,730	5,288	158,600

## NOTES TO THE CORE FINANCIAL STATEMENTS

The estimated payments for service charges are based on expected tonnages and prices for 2010/11. Other costs largely relate to lifecycle replacement costs (expenditure to meet the operator's costs in ensuring that the properties continue to meet the standard required in the contract over the life of the contract).

The value of assets held under this scheme is as follows:

2008/09 Other Land & Buildings £000s Restated		2009/10 Other Land & Buildings £000s
31,421	Net Book Value at 1 April	38,690
114	Additions	15
9,016	Revaluations	0
-1,861	Depreciation	-2,497
38,690	Net Book Value at 31 March	36,208

The value of liabilities held under this scheme is as follows:

2008/09 £000s Restated		2009/10 £000s
20,979	At 1 April	19,829
-1,150	Movement in the year	-1,307
19,829	At 31 March	18,522

Under this contract, the operator receives a significant part of their income from third parties, either from gate fees, sale of energy production or recycled materials. A proportion of the assets are effectively financed with third party revenues rather than with fixed payments from the Council. A balancing credit, pro rata to the proportion of fixed payments from the Council and expected third party payments, has been created in the form of a Deferred Income balance. This balance is released to income and expenditure over the life of the contract, with a corresponding appropriation from the Capital Adjustment Account to the Statement of Movement on the General Fund Balance. The balance as at 31 March 2010 was £7.0 million (31 March 2009 £7.5 million).

### ii) Schools 1

In March 2001, the Council entered into a thirty two and a half year contract with Kirklees Schools Services Ltd for the delivery to nineteen of the Council's schools of:

- Initial investment to carry out major repairs and improvements.
- Maintenance of the buildings over the contract period.
- Provision of caretaking and cleaning services for the contract period.

At the start of the contract, existing school buildings were leased to the operator. At the end of the contract, the operator is obliged to hand over the schools to the Council in a specified condition for no incremental consideration.

The operator does have the right to use the assets for appropriate third party use, outside the times they must be available to meet the Council's requirements. The amount of third party use varies from asset to asset, but is not significant within the overall context of the contract.

The Council incurred costs of £13.1 million under the contract in 2009/10 (2008/09 £11.7 million) and received £5.9 million in PFI Grant (2008/09 £5.9 million). Details of estimated payments due to be made are as follows:



## NOTES TO THE CORE FINANCIAL STATEMENTS

	Service Charges £000s	Interest Charges £000s	Repayments Of Liability £000s	Other £000s	Total £000s
In 2010/11	7,621	3,141	789	1,076	12,627
Between 2011/12 to 2014/15	32,542	12,117	3,020	4,658	52,337
Between 2015/16 to 2019/20	44,741	13,658	5,636	6,235	70,270
Between 2020/21 to 2022/25	50,741	11,237	7,357	6,984	76,319
Between 2025/26 to 2029/30	55,111	7,892	12,780	7,379	83,162
Between 2030/31 to 2033/34	39,884	1,901	13,550	4,812	60,147
	<u>230,640</u>	<u>49,946</u>	<u>43,132</u>	<u>31,144</u>	<u>354,862</u>

Estimated payments assume annual inflation of 2.5%, where appropriate. Other costs largely relate to lifecycle replacement costs.

The value of assets held under this scheme is as follows:

2008/09 Other Land & Buildings £000s Restated		2009/10 Other Land & Buildings £000s
129,839	Net Book Value at 1 April	170,067
3,679	Additions	2,519
41,051	Revaluations	4,489
-4,502	Depreciation and impairment	-5,658
<u>170,067</u>	Net Book Value at 31 March	<u>171,417</u>

The value of liabilities held under this scheme is as follows:

2008/09 £000s Restated		2009/10 £000s
44,596	At 1 April	44,120
-476	Movement in the year	-988
<u>44,120</u>	At 31 March	<u>43,132</u>

### iii) Schools 2

In March 2005, the Council entered into a PFI contract with QED (KMC) Holdings Ltd for a period until 31 August 2031, for delivery to three of the Council's Special Schools of:

- New build schools at two sites, and major extensions to and full refurbishment of existing buildings at a third.
- Maintenance of the buildings over the contract period.
- Provision of caretaking, cleaning and other premises management functions over the term of the contract.

The operator is obliged to hand over the schools to the Council in a specified condition at the end of the contract for no incremental consideration.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council incurred costs of £2.8 million under the contract in 2009/10 (£2.8 million in 2008/09) and received £2.2 million in PFI Grant (2008/09 £2.2 million). Details of estimated payments due to be made are as follows:

	Service Charges £000s	Interest Charges £000s	Repayments Of Liability £000s	Other £000s	Total £000s
In 2010/11	1,054	1,043	564	168	2,829
Between 2011/12 to 2014/15	4,391	3,693	2,120	943	11,147
Between 2015/16 to 2019/20	5,953	3,637	2,328	1,760	13,678
Between 2020/21 to 2022/25	6,637	2,632	2,478	1,847	13,594
Between 2025/26 to 2029/30	7,508	1,430	3,539	1,246	13,723
Between 2030/31 to 2031/32	2,316	103	1,398	129	3,946
	27,859	12,538	12,427	6,093	58,917

Part of the contract payment deflates at 2.5% annually, whilst the other part is indexed annually in line with "All items RPI". The estimated payments above assume annual inflation of 2.5%, where appropriate. Other costs largely relate to lifecycle replacement costs.

The value of assets held under this scheme is as follows:

2008/09 Other Land & Buildings £000s Restated		2009/10 Other Land & Buildings £000s
18,414	Net Book Value at 1 April	18,182
80	Additions	153
-312	Depreciation	-314
18,182	Net Book Value at 31 March	18,021

The value of liabilities held under this scheme is as follows:

2008/09 £000s Restated		2009/10 £000s
13,531	At 1 April	12,971
-560	Movement in the year	-544
12,971	At 31 March	12,427

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 9 Pooled Funds

Section 75 of the National Health Service Act 2006 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000 enable the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds allow health bodies and local authorities to work collaboratively to address specific local health issues.

During 2002/03 the Council, in association with the local Primary Care Trusts, established a development fund for People with Learning Disabilities. The purpose of the fund was to increase the opportunities for adults with learning disabilities to access community facilities, to support people in the development of person centred planning, and to provide advocacy support in the development of services. In 2003/04 the same partners established an Integrated Community Equipment Service. Contributions and expenditure for both funds are detailed below:

2008/09 £000s		2009/10 £000s
	<u>Gross Funding</u>	
2,088	Kirklees Council	2,036
373	Kirklees Primary Care Trust	361
9	Other income	4
<u>2,470</u>	<u>Total Funding</u>	<u>2,401</u>
	<u>Expenditure</u>	
2,054	Community Equipment	2037
416	Learning Disabilities Development Fund	364
<u>2,470</u>	<u>Total Expenditure</u>	<u>2,401</u>

### 10 Members Allowances

2008/09 £000s		2009/10 £000s
1,350	Total amount of allowances paid, including employers' national insurance and pension contributions	1,349

### 11 Transactions with Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows stakeholders to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to transact freely with the Council.

#### i) Elected Members and Chief Officers

There were no material disclosures to declare for 2009/10 for either Elected Members or Chief Officers, except for one noted below. It should be noted that all members' financial and other interests which could conflict with those of the Council are open to public inspection as required by the code of conduct adopted by the Council in accordance with section 51 of the Local Government Act 2000 and the Local Authorities (Model Code of Conduct) (England) Regulations 2001, made under section 50 of that Act. Members are also required to disclose personal and prejudicial interests in matters being considered at meetings at which they are present. Officers also have a duty to declare any interests which could conflict with those of the Council.

One Elected Member is employed as a Technical Contracts Manager for Connect Housing Association to which the Council paid £678,000 in 2009/10, relating to affordable property schemes.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### ii) Companies

The Council has a number of minority interests in companies. The main transactions were as follows:

	Monies received by the Council for services		Payments to the companies			
	2008/09 £000s	2009/10 £000s	Services		Grant	
			2008/09 £000s	2009/10 £000s	2008/09 £000s	2009/10 £000s
Kirklees Community Association	176	215	0	0	0	0
Kirklees Theatre Trust	10	9	0	0	278	183
Kirklees Music School	9	9	729	733	0	0
Calderdale and Kirklees Careers Service Partnership	136	108	2,960	3,329	0	0
Kirklees Media Centre Ltd	50	40	0	0	0	0
Kirklees Energy Services	13	8	0	0	4,254	938
Kirklees Active Leisure	464	479	3,097	3,590	0	0

As at 31 March 2010, Kirklees Active Leisure owed the Council £55,500 for services and also for reimbursement of staff salaries paid by the Council on behalf of the company (£263,600 at March 2009).

As at 31 March 2010, the Council owed Calderdale and Kirklees Careers Service Partnership £280,900 (£74,400 as at 31 March 2009).

The Council has also given loans to certain of the above companies. As at 31 March 2010, Kirklees Media Centre Ltd had an outstanding loan of £217,500 (£217,500 as at 31 March 2009).

The following related party transactions are disclosed elsewhere in the accounts:

- Precepting authorities (see the Income and Expenditure Account and the Collection Fund Income and Expenditure Account). The Council also pays Joint Committees for providing services such as Trading Standards and Passenger Transport. Payments in 2009/10 amounted to £18.5 million (2008/09 £18.1 million). Certain Parish Councils have also invested funds with the Council. As at 31 March 2010, £128,800 (£206,000 at 31 March 2009) was invested.
- Pension Fund (see note 43)
- Government Grants (see note 45)
- Subsidiary and joint venture companies (see Group Accounts). In addition, Kirklees Neighbourhood Housing, the Council's ALMO manages properties on behalf of Kirklees Community Association under a management contract. Transactions relating to this service are included in the Group Accounts.
- PFI Transactions (see note 8)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 12 Remuneration of Employees

The number of employees whose remuneration was £50,000 or more was as follows:

2008/09			2009/10	
Teachers	Other	Remuneration Band (£)	Teachers	Other
86	47	50,000 - 54,999	107	55
56	16	55,000 - 59,999	70	32
19	11	60,000 - 64,999	32	15
13	4	65,000 - 69,999	14	3
9	11	70,000 - 74,999	8	14
4	5	75,000 - 79,999	6	3
3	5	80,000 - 84,999	6	6
3	3	85,000 - 89,999	2	1
	2	90,000 - 94,999	2	2
2		95,000 - 99,999		2
	1	100,000 - 104,999	2	1
	1	105,000 - 109,999		2
		110,000 - 114,999		
	5	115,000 - 119,999		2
	1	130,000 - 134,999		1
		135,000 - 139,999		1
	1	145,000 - 149,999		
	1	155,000 - 159,999		2
		170,000 - 174,999		1
<b>195</b>	<b>114</b>	<b>Total</b>	<b>249</b>	<b>143</b>

The remuneration figures include employee pension contributions and any severance costs, but exclude employer's contributions. As the defined lower limit of the banding has not increased in the last two years, more people are being brought within this disclosure note, due to the impact of inflation.

Additional disclosures are made from 2009/10 as below.

The following table sets out the remuneration disclosures for Senior Officers whose salary is £150,000 or more per year.

Post holder information (Post title and name)	Salary including fees and allowances £	Expense Allowance £	Total Remuneration Excluding pension contributions £	Employer's Pension Contributions £	Total Remuneration including pension contributions £
<b>2009/10</b>					
Chief Executive R Vincent	159,447	195	159,642	21,047	180,689
<b>2008/09</b>					
Chief Executive R Vincent	153,431	1,613	155,044	19,025	174,069

## NOTES TO THE CORE FINANCIAL STATEMENTS

The following table sets out the remuneration disclosures for the Council's senior officers (Executive Management Group and Monitoring Officer), whose salary is less than £150,000, but equal to or more than £50,000 per year

### Senior Officers emoluments (financial year 2009/10)

Post holder information (Post title)	Salary including fees and allowances £	Expense Allowances £	Compensation for loss of office £	Total Remuneration Excluding pension contributions 2009/10 £	Employers Pension Contributions 6* £	Total Remuneration including pension contributions 2009/10 £
Director for Children and Young People	138,743	442		139,185	17,402	156,587
Director for Wellbeing and Communities	109,334			109,334	14,432	123,766
Director for Regeneration	119,300	139		119,439	15,747	135,186
Director for Corporate Services - 1*	83,335	136	89,538	173,009	11,001	184,010
Director of Finance & Performance - 2*	95,027			95,027	12,543	107,570
Director of Finance - 3*	31,698	136	98,792	130,626	4,184	134,810
Director for Environment, Transportation and Property	119,300	136		119,436	15,748	135,184
Director of Human Resources - 4*	103,708	136		103,844	13,689	117,533
Director of Organisational Development 5*	52,792			52,792	6,968	59,760
Monitoring Officer	91,435			91,435	12,069	103,504
<b>Total</b>	<b>944,672</b>	<b>1,125</b>	<b>188,330</b>	<b>1,134,127</b>	<b>123,783</b>	<b>1,257,910</b>

1\* The Director for Corporate Services was made redundant on 31/12/2009, their annualised salary as at 31/12/2009 was £120,433

2\* The Director of Finance and Performance commenced employment on 6/07/2009, their full time equivalent salary as at 31/03/2010 was £120,433

3\* The Director of Finance agreed to take early retirement on 26/07/2009 to facilitate Council restructure, their annualised salary as at 26/07/2009 was £117,694.

4\* The Director of Human Resources works 33 hours and 20 minutes a week, their full time equivalent salary as at 31/03/2010 was £114,958

5\* The Director of Organisational Development commenced employment on 26/10/09, their annualised salary as at 31/03/2010 was £109,483.

6\* No added years pensions were provided for senior officers

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Senior Officers emoluments (financial year 2008/09)

Post holder information (Post title)	Salary including fees and allowances £	Expense Allowances £	Compensation for loss of office £	Total Remuneration Excluding pension contributions 2008/09 £	Employers Pension Contributions 4* £	Total Remuneration including pension contributions 2008/09 £
Director of Children's Services	128,956	1,096		130,052	15,990	146,042
Director of Adults & Communities A - 1*	82,995	795	62,611	146,401	10,291	156,692
Director of Wellbeing & Communities B - 2*	31,389			31,389	3,892	35,281
Director of Regeneration	114,827	1,113		115,940	14,239	130,179
Director of Corporate Services	114,827	1,095		115,922	14,239	130,161
Director of Finance	114,827	1,095		115,922	14,239	130,161
Director of Environment	114,827	1,095		115,922	14,239	130,161
Transport and Property						
Director of Human Resources - 3*	100,510	1,095		101,605	12,462	114,067
Monitoring Officer	89,247	40		89,287	11,066	100,353
<b>Total</b>	<b>892,405</b>	<b>7,424</b>	<b>62,611</b>	<b>962,440</b>	<b>110,657</b>	<b>1,073,097</b>

1\* The Director of Adults and Communities agreed to take early retirement on 10/01/2009 to facilitate Council restructure, their annualised salary as at 10/01/2009 was £116,187.

2\* The Director of Wellbeing and Communities commenced employment on 05/01/2009, their annualised salary as at 31/03/2009 was £108,084.

3\* The Director of Human Resources went from working 37 hours a week to 33 hours 20 minutes on 02/07/2008. Their full time equivalent salary as at 31/03/2009 was £110,706

4\* No added years pensions were provided for senior officers

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 13 Disclosure of Audit Costs

The fees incurred relating to external audit and inspections were as follows:

2008/09			2009/10
£000s	£000s		£000s
	Restated		
360	360	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	383
32	22	Fees payable to the Audit Commission for Statutory Inspection	17
130	143	Fees payable to the Audit Commission for the certification of grant claims and returns	115
0	0	Fees payable in respect of other services provided by the appointed auditor	0
522	525		515

The figures for 2008/09 have been restated as the SORP requires that audit costs should relate to the year of account, rather than when the audit work was carried out.

### 14 General Grants and Contributions

These grants are grants and contributions that do not relate to the performance of a specific service.

2008/09			2009/10
£000s	£000s		£000s
	Restated		
17,857	17,857	Revenue Support (RSG)	28,481
21,451	21,451	Area Based Grant	21,301
0	11,358	PFI Grant	11,358
3,065	3,065	Performance Reward Grant	657
477	477	Local Authority Business Growth Incentives (LABGI)	257
0	0	Housing and Planning Delivery Grant (HPDG)	891
0	0	Supporting People*	10,594
1,111	1,111	Grants and contributions related to capital financing which cannot be identified to particular services or assets.	1,565
43,961	55,319		75,104

Last year's figures have been restated to account for grants relating to PFI. This is due to a change in accounting policy in relation to how PFI schemes are accounted (see statement of accounting policies and notes 1 and 8).

\* Supporting People was a ring fenced grant in 2008/09, and as such it was recognised as income within Housing on the Income and Expenditure Account. As this grant is no longer ring fenced it now forms part of General Grants and Contributions within the Income and Expenditure Account.

From 2008/09, a number of grants, and in particular Local Area Agreement (LAA) Grant, have increasingly been replaced by Area Based Grant (ABG). ABG is a non-ringfenced grant, that is there are no conditions imposed on its use as part of the grant determination, ensuring full local control over how funding can be used. Also, unlike LAA Grant, ABG is paid directly to the authority that benefits from the grant, rather than being paid to the upper-tier authority for the area in the capacity of "accountable body" for onward distribution. ABG is classified as a general grant.



## NOTES TO THE CORE FINANCIAL STATEMENTS

While there is a link to old funding regimes, the Council has intentionally chosen not to hypothecate resources and is allocating ABG in accordance with local as well as national priorities as part of overall budget planning.

### 15 Deployment of Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families (now the Department for Education). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Over and underspendings on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2009/10 are as follows:

	Central Expenditure £000s	ISB £000s	Total £000s
Final DSG for 2009/10	20,692	229,273	249,965
Brought Forward for 2008/09	949	0	949
Carry forward to 2010/11 agreed in advance	0	0	0
Agreed budgeted distribution for 2009/10	21,641	229,273	250,914
Allocation of school specific contingencies	-2,213	2,213	0
Actual Central Expenditure	-18,549	0	-18,549
Actual ISB deployed to schools	0	-231,486	-231,486
Local authority contribution for 2009/10	0	0	0
Carry forward to 2010/11	879	0	879

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 16 Note to the Statement of Movement on the General Fund Balance (SMGFB)

This note shows a detailed breakdown of the additional amounts required by statute and non-statutory provisions to be debited or credited to the General Fund Balance.

2008/09	Restated		2009/10
£000s	£000s		£000s
		<u>Items required by statute to be excluded when determining the Movement on the General Fund Balance for the year -</u>	
-35,262	-41,837	Depreciation (excluding depreciation on HRA assets)	-51,029
-181	-181	Excess of depreciation charged to HRA over Major Repairs Allowance	-241
-149,560	-149,560	Impairment	-11,766
0	0	Reversal of impairment	43,052
7,147	7,684	Grants deferred amortisation	9,397
-7,125	-7,125	Revenue expenditure funded from capital under statute, net of grant	-11,496
-714	0	Deferred consideration	0
-4,183	-4,183	Net gain(-)/ loss on disposal of fixed assets	-10,054
17	17	Financial instruments	-3,733
-57,035	-57,035	Net charges made for retirement benefits in accordance with FRS17	-71,133
140	140	Other	291
-4,700	-4,700	Unequal Pay Back Pay	-2,683
0	-590	Amount by which Council Tax income and residual community charge adjustment included in the Income & Expenditure Account is different from the amount taken to the General Fund in accordance with regulation	-1,227
-251,456	-257,370		-110,622
		<u>Items required by statute to be included when determining the Movement on the General Fund Balance for the year -</u>	
12,889	12,889	Statutory provision for repayment of debt	14,415
11,105	12,086	Capital expenditure charged to the General Fund Balance	10,764
-3,213	-3,213	Housing Capital Receipts Pool	-1,815
31,735	31,735	Employer's contributions payable to pension funds and retirement benefits payable direct to pensioners	46,054
52,516	53,497		69,418
		<u>Transfers to or from General Fund Balance -</u>	
-1,831	-1,831	Housing Revenue Account	994
3,255	5,555	Voluntary provision for the repayment of debt	6,849
-476	202	Earmarked Reserves	-987
-197,992	-199,947	Net additional amount required to be credited to the General Fund balance for the year	-34,348

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 17 Summary of Capital Expenditure and Sources of Finance

2008/09	Restated		2009/10
£000s	£000s		£000s
		<u>Capital Expenditure</u>	
92,409	92,409	Tangible Fixed Assets	104,130
635	635	Intangible Assets	2,870
16,641	16,641	Revenue expenditure funded from capital under statute – REFCUS (see note below)	19,781
596	596	Loans and investments	26,182
2,772	2,772	Deferred Consideration	0
0	0	Capitalisation of Equal Pay	7,383
0	1,095	PFI Life Cycle Costs	1,413
<u>113,053</u>	<u>114,148</u>		<u>161,759</u>
		<u>Sources of Finance</u>	
57,662	57,662	Borrowing	84,886
4,043	4,043	Capital Receipts	4,106
		Grant and Contributions –	
7,739	7,739	Grants and contributions associated with REFCUS	7,632
29,479	29,479	Other grants and contributions	41,085
3,025	3,025	Major Repairs Reserve	13,286
11,105	11,105	Revenue	9,351
	981	PFI Revenue	1,413
0	114	PFI Finance Lease	0
<u>113,053</u>	<u>114,148</u>		<u>161,759</u>

### 18 Revenue expenditure funded from capital under statute (REFCUS)

Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried as a fixed asset on the Balance Sheet. This is to enable this type of expenditure to be funded through capital resources. These items are grants and expenditure on property not owned by the Council.

2008/09		2009/10
£000s		£000s
	Amounts charged to services	
7,163	Improvement Grants – Housing	7,016
9,478	Other Grants and Voluntary Aided Church Schools	12,765
-1,776	Adjustment – reclassification of previous year's expenditure as loans/ investments	-653
<u>14,865</u>	Amounts written off to Capital Adjustment Account with reconciling item in the SMGFB	<u>19,128</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 19 Capital Commitments

In February 2010, the Council approved a capital programme of £215.2 million for 2010/11 and a further £504.9 million of capital investment in the following five years. Listed below are the significant schemes the Council is committed to or aims to be committing to shortly:

	Approximate value of investment £000s	Period over which the investment will take place
<u>Contractual</u>		
Dewsbury Town Hall - External Works	2,132	2008 - 2012
Greenhead Park	1,813	2009 - 2012
Ravensthorpe LIC/CC	1,152	2008 - 2012
Longley School	835	2008 - 2012
Heckmondwike Grammar School	587	2008 - 2012
<u>Planned</u>		
New Huddersfield Sport Centre	33,945	2009 - 2014
Waterfront Industrial Relocation	3,900	2009 - 2014
Heckmondwike LIC	2,287	2009 - 2013
Dewsbury Town Hall - Re-Roof	2,168	2009 - 2013
Oxford Grange	2,114	2009 - 2010
Huddersfield Crematorium	1,800	2010 - 2012
Huddersfield KIP	1,600	2010 - 2011
Cemetery Developments - Fenay Bridge	1,524	2008 - 2013
Data Centre	1,197	2009 - 2010
Able 2	1,150	2008 - 2011
Homestead Daycare Development	850	2010 - 2011
Dewsbury Cematorium	800	2009 - 2011
Cleckheaton Town Hall	750	2009 - 2013

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 20 Information on Assets

The Council uses the following assets in the provision of its services:

31 March 2009		31 March 2010
	<u>Buildings</u>	
3	Nursery Schools and Annexes	3
95	Primary Schools	94
5	Middle Schools	5
19	High Schools	19
6	Special Schools	6
63	Aided/ Foundation Schools	63
39	Children and Families other assets	39
12	Youth Clubs	12
15	Leisure Centres and Swimming Pools	14
12	Public Halls/ Town Halls	12
20	Community Centres	21
15	Cemeteries and Crematoria	15
25	Libraries	24
8	Museums and Galleries	8
11	Adult Services – Service for Older People	9
14	Adult Services – Other Adult Services	10
5	Adult Services – Leased to Other Agencies	5
2	Adult Services – Other	2
10	Market Halls/ Open Markets	10
92	Car Parks	92
17	Public Conveniences	16
7	PFI Primary Schools	7
12	PFI Secondary Schools	12
3	PFI Special Schools	3
2	PFI Waste to Energy Recycling Plant & Transfer Station	2
23,217	Council Dwellings	23,122
	<u>Land</u>	
810	Acres of Woodland	810
1,881	Allotment Sites	1,881
1,136	Acres of Parkland	1,136
	<u>Infrastructure</u>	
209	Km of Principal Roads	209
1,799	Km of Other Roads	1,800
342	Km of Green Lanes	342

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 21 Finance and Operating Leases

#### Finance Leases:

The Council has a lease on Civic Centre 1 which has been classified as a finance lease. The rental payable in 2009/10 was £0.3 million (£0.3 million in 2008/09), which was charged to the Income and Expenditure Account as finance costs except for a minimal amount used to write down the outstanding obligation. The asset was valued in the balance sheet at £7.2 million as at 31 March 2010 (£6.2 million at 31 March 2009), with accumulated depreciation of £0.2 million at 31 March 2010 (£0.1 million at 31 March 2009). The total amount of depreciation charged in 2009/10 was £0.07 million (£0.07 million in 2008/09).

Outstanding obligations to make payments under finance leases (excluding finance costs) at 31 March 2010 are as follows:

	Civic Centre 1 £000s
Obligations payable in 2010/11	0
Obligations payable between 2011/12 to 2014/15	0
Obligations payable 2015/16 onwards	1,050
<b>Total liability at 31 March 2010</b>	<b>1,050</b>

#### Operating Leases:

The Council uses vehicles, wheeled bins, computer and printing equipment financed under the terms of an operating lease. The amount paid under these arrangements in 2009/10 was £0.4 million (£0.7 million in 2008/09).

The Council also leases office accommodation, mainly in Huddersfield Town Centre. The rentals payable in 2009/10 were £1.0 million (£0.9 million in 2008/09).

The Council is committed at 31 March 2010 to making payments of £1.0 million under operating leases in 2009/10, analysed by expiry date as follows:

Lease Expiry	Land & Buildings £000s	Vehicles & Equipment £000s	Total £000s
2010/11	18	126	144
2011/12 – 2014/15	174	231	405
2015/16 onwards	411	0	411
<b>Total</b>	<b>603</b>	<b>357</b>	<b>960</b>

The Council also acts as a lessor of commercial property, land, market stalls and industrial units. Lease income received in 2009/10 amounted to £6.1 million (2008/09 £6.3 million). The gross value of assets leased out was £71.9 million at 31 March 2010 (£67.8 million at 31 March 2009), with accumulated depreciation of £1.3 million (£1.6 million at 31 March 2009).

The Council also leases assets under PFI Transactions – see note 8.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 22 Movement in Intangible Assets 2009/10

<u>Cost or Valuation</u>	Purchased software licences £000s
At 1 April 2009	2,596
Additions	2,870
Disposals	-60
At 31 March 2010	5,406
<u>Amortisation</u>	
At 1 April 2009	-1,222
Written off to revenue in year	-504
Disposals	60
At 31 March 2010	-1,666
Balance at 31 March 2010	3,740
Balance at 1 April 2009	1,374

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 23 Movement in Tangible Fixed Assets 2009/10: Operational

	Council Dwellings £000s	Other Land and Buildings £000s	Vehicles, Plant and Equipment £000s	Infra- structure Assets £000s	Community Assets £000s	Total Assets £000s
<u>Cost or Valuation</u>						
At 1 April 2009	707,031	760,557	31,441	240,417	2,638	1,742,084
Prior year adjustments	0	352,378	0	0	0	352,378
	707,031	1,112,935	31,441	240,417	2,638	2,094,462
Additions	23,477	38,618	6,718	27,765	2,358	98,936
Disposals	-2,893	-6,729	-1,940	0	0	-11,562
Revaluations – upward valuations	17,299	49,461	0	0	0	66,760
Revaluations – impairments	0	-19,651	0	0	0	-19,651
Changes in classification	258	-3,877	0	0	16	-3,603
At 31 March 2010	745,172	1,170,757	36,219	268,182	5,012	2,225,342
<u>Depreciation and impairments</u>						
At 1 April 2009	0	-59,660	-12,036	-76,551	0	-148,247
Prior year adjustments	0	-14,850	0	0	0	-14,850
	0	-74,510	-12,036	-76,551	0	-163,097
Depreciation charge for year	-14,732	-33,999	-4,404	-11,539	-148	-64,822
Impairment – asset deterioration	0	0	0	0	0	0
Written out - disposals	0	690	1,658	0	0	2,348
Written out - revaluations	14,743	22,519	0	0	0	37,262
Reclassifications	-11	1,239	0	0	0	1,228
At 31 March 2010	0	-84,061	-14,782	-88,090	-148	-187,081
Balance at 31 March 2010	745,172	1,086,696	21,437	180,092	4,864	2,038,261
Balance at 1 April 2009	707,031	1,038,425	19,405	163,866	2,638	1,931,365
<u>Nature of Asset Holding</u>						
Owned	745,172	857,229	21,437	180,092	4,864	1,808,794
Finance Lease	0	7,001	0	0	0	7,001
PFI	0	222,466	0	0	0	222,466
	745,172	1,086,696	21,437	180,092	4,864	2,038,261

Community Assets include parks and numerous museum exhibits, each of which has been given a nominal value of £1. Any further expenditure is being included at cost.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 24 Movement in Tangible Fixed Assets 2009/10: Non-Operational

	Investment Properties £000s	Assets Under Construction £000s	Surplus Assets £000s	Total Assets £000s
<u>Cost or Valuation</u>				
At 1 April 2009	81,851	11,589	17,722	111,162
Additions	4,885	1,720	0	6,605
Disposals	-2,299	-300	-4,790	-7,389
Revaluations – upward valuations	2,045	0	2,145	4,190
Revaluations - impairments	-2,325	0	0	-2,325
Reclassifications	306	-8,167	11,464	3,603
At 31 March 2010	84,463	4,842	26,541	115,846
<u>Depreciation and Impairments</u>				
At 1 April 2009	0	0	-1,428	-1,428
Charge for year	0	0	-676	-676
Impairment – asset deterioration	0	0	0	0
Written out - disposals	0	0	983	983
Written out - revaluations	0	0	80	80
Reclassifications	-29	0	-1,199	-1,228
At 31 March 2010	-29	0	-2,240	-2,269
Balance at 31 March 2010	84,434	4,842	24,301	113,577
Balance at 1 April 2009	81,851	11,589	16,294	109,734
<u>Nature of Asset Holding</u>				
Owned	84,434	4,842	24,301	113,577

### 25 Fixed Asset Valuation

With the exception of HRA properties, all properties are being revalued on a five year rolling programme. The valuations for non-housing properties for 2009/10 were completed by RICS qualified internal valuers. The valuations of council dwellings and other housing assets, which are carried out annually, were completed by the external District Valuer. The valuations were in accordance with RICS guidance and are prepared on the following assumptions:

- that no high alumina cement, concrete or calcium chloride additive or other potentially deleterious material was used in the construction of the properties and that none has subsequently been incorporated.
- that the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoing and that good title can be shown.
- that the properties and their value are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful.
- that inspection of those parts which have not been inspected would not cause the Appointed Valuer to alter the opinion of value.
- that the land and properties are not contaminated.

Plant and machinery forming part of the building services' installations are included in the valuation of the buildings. A de minimis level of £10,000 has been established for the recording of new assets in the Balance Sheet.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The following statements show the progress of the Council's rolling programme for the revaluation of fixed operational and non-operational assets. The basis for valuation is set out in the statement of accounting policies on page 24.

	<b>Operational Fixed Assets</b>					
	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infra-structure Assets	Community Assets	Total Assets
	£000s	£000s	£000s	£000s	£000s	£000s
Valued at historical/nominal cost		6,135	21,437	180,092	4,864	212,528
Valued at current value in -						
2009/10	745,172	495,937				1,241,109
2008/09		539,465				539,465
2007/08		14,186				14,186
2006/07		25,724				25,724
Pre 2006/07		5,249				5,249
<b>Total</b>	<b>745,172</b>	<b>1,086,696</b>	<b>21,437</b>	<b>180,092</b>	<b>4,864</b>	<b>2,038,261</b>

	<b>Non-Operational Fixed Assets</b>			
	Investment Properties	Assets Under Construction	Surplus Assets	Total Assets
	£000s	£000s	£000s	£000s
Valued at historical cost		4,842		4,842
Valued at current value in -				
2009/10	13,635		3,715	17,350
2008/09	69,792		18,621	88,413
2007/08	1,007		650	1,657
2006/07			1,315	1,315
<b>Total</b>	<b>84,434</b>	<b>4,842</b>	<b>24,301</b>	<b>113,577</b>

### 26 Analysis of Net Assets Employed

The net assets of the Council are split between the following categories:

31 March 2009			31 March 2010
£000s	Restated £000s		£000s
306,304	484,681	General Fund	153,551
505,215	505,215	Housing Revenue Account	492,305
-19,831	-19,831	Trading Undertakings	-70,618
<b>791,688</b>	<b>970,065</b>		<b>575,238</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 27 Long Term Investments and Companies

The Council holds the following long term investments:

31 March 2009 £000s		31 March 2010 £000s
194	Kirklees School Services	150
170	QED (KMC) Holdings	170
1,967	Affordable Housing	3,102
8,000	Money Market Investment	1,000
7	Other	6
10,338		4,428

Many of the details of the Council's investments in companies are included in the section on Group Accounts on pages 95 - 107. The investment for Kirklees Henry Boot Partnership is now shown as a short term investment as it is intended to wind the company up within the next twelve months.

The Council has provided funding for the purchase, or part purchase, and renovation of properties via Registered Social Landlords. These properties are then offered as affordable housing, with the Council taking a percentage equity stake. When the property is sold, the Council will receive the same percentage of the sale price, and thus the value of the stake is subject to housing market fluctuations.

The Council has three further notable interests in companies, details of which are included below. Details of any transactions between the Council and these companies are given in disclosure note 11.

#### i) Kirklees Active Leisure

The principal activity of the company is to manage a range of core sports centre and swimming pool facilities. The Company is limited by guarantee with charity status. The board comprises 8 trustees of which the Council has one representative. The latest published information on the Company's financial position is as follows:

year ending 31/03/08 £000s		year ending 31/03/09 £000s
1,162	Company net liabilities	742
-685	Net movement in Funds (income over expenditure)	420

The Council is not committed to meeting the accumulated loss of the company, other than any defaults on pension contributions (see first point in note 39). Copies of the accounts can be obtained from the Company Secretary, Stadium Business and Leisure Complex, Stadium Way, Huddersfield, West Yorkshire, HD1 6PG.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### ii) QED (KMC) Holdings Ltd

The principal activity of the company is the provision of services under the Private Finance Initiative (PFI) in respect of three Special Education Needs Schools in Kirklees. The Council holds 32,200 'C' ordinary shares out of a total of 230,000 ordinary shares of £1 each. The latest information (audited for year ending 31/12/09) on the Company's financial position is as follows:

year ending 31/12/08 £000s		year ending 31/12/09 £000s
338	Company net assets	284
30	Profit/ Loss(-) for year before tax	-62
20	Profit/ Loss(-) for year after tax	-54
0	Dividend paid	0

Copies of the accounts can be obtained from the Company Secretary, 3 White Oak Square, London Road, Swanley, Kent BR8 7AG.

### iii) Kirklees Schools Services Ltd (KSSL)

The principal activity of the company is the development, funding and construction of schools together with the operation of school services. The Council holds 163,140 'C' ordinary shares out of a total of 1,656,870 ordinary shares of £1 each. The latest information (unaudited for the 12 months ending 31/03/10) on the Company's financial position is as follows:

15 months ending 31/03/09 £000s		year ending 31/03/10 £000s
2,457	Company net assets	2,513
-125	Profit/ Loss(-) for year before tax	121
-224	Profit/ Loss(-) for year after tax	56
2,244	Dividend paid	0

Copies of the accounts can be obtained from the Company Secretary, Semperian Secretariat Services Limited, St Martins House, 1 Gresham Street, London EC2V 7BX.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 28 Long Term Debtors

This note identifies amounts owing to the Council which are being repaid over various periods longer than one year. Provision has been made for long term debts which the Council anticipates may not be recovered.

2008/09			2009/10
£000s	Restated £000s		£000s
102	102	Mortgages	83
0	0	Kirklees College (i)	19,161
0	6,176	PFI prepayments (ii)	6,362
13,679	0	Deferred prepayments – PFI contracts	0
377	377	Waste Management SSA Issue (iii)	302
647	647	Employee Loans for Cars, Bicycles and Home Computers	550
892	892	Charges on Property for Residential Care	1,108
512	512	Other	797
16,209	8,706		28,363
-16	-16	Bad Debt Provision	-21
16,193	8,690	Net Long Term Debtors	28,342

- (i) The Council gave a loan of £23.349 million to Kirklees College, repayable over 25 years, as part of the overall funding package for their Waterfront Development Scheme. Without the loan their new development would not have been possible. An accounting adjustment of £3.708 million was made and immediately written down to the sponsoring service - Children and Young People's Service, to reflect the fact that the loan was given at less than market rates but does not affect the College's contractual commitment to repay the full amount of the loan plus interest over its lifetime. £480,000 is due to be repaid in 2010-11 and is not included in the above figure. The detailed commercial arrangement between the college and the Council is confidential but although the loan was given below market rates the Council will cover its costs.
- (ii) Under the terms of the PFI contracts, the Council makes prepayments which the contractor puts into sinking funds which will be used to meet future costs incurred in the schemes.
- (iii) Amounts owed by Wakefield MDC arising from the Council's contributions to capital costs of the former West Yorkshire Waste Management Joint Committee, for which Wakefield MDC received the Standard Spending Assessment.

### 29 Stocks and Work in Progress

31 March 2009 £000s		31 March 2010 £000s
	<u>Stocks -</u>	
807	Building Services	810
694	Highways Direct Services	651
154	Catering & Cleaning Services	175
139	Fleet Management	154
203	Other	165
1,997	Total Stocks	1,955
599	Building Services Work in Progress	322
2,596	Total Stocks and Work in Progress	2,277

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 30 Short Term Debtors, Payment in Advance and Bad Debt Provision

The analysis below shows income due but not received as cash as at 31 March, as well as payments that the Council has made in advance. The Council also makes provision for short term debts which it anticipates may not be recovered.

31 March 2009			31 March 2010
£000s	Restated £000s		£000s
		<u>Taxpayer Debtors</u>	
12,109	10,955	Council Tax	12,314
6,339	0	NNDR	0
<u>18,448</u>	<u>10,955</u>		<u>12,314</u>
		<u>Government Debtors</u>	
7,172	7,172	HM Revenue and Customs	8,695
13,179	14,752	Other	20,519
<u>20,351</u>	<u>21,924</u>		<u>29,214</u>
2,647	2,647	Interest on Investments	1,342
5,170	5,170	Housing Rents Debtors	5,557
23,853	23,853	Other Miscellaneous Debtors	28,664
6,626	6,626	Payments in Advance	9,182
<u>77,095</u>	<u>71,175</u>	Total Short Term Debtors and Payments in Advance	<u>86,273</u>
		<u>Short Term Bad Debt Provision</u>	
-11,333	-6,875	Taxpayers	-6,882
-2,565	-2,565	Housing Rents	-2,975
-2,914	-2,914	Other	-3,216
<u>-16,812</u>	<u>-12,354</u>	Total Bad Debt Provision	<u>-13,073</u>

### 31 Landfill Allowances Trading Scheme

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. Consequently, the Landfill Allowances Trading Scheme which was launched on 1 April 2005 requires authorities to hold sufficient allowances to cover the amount of BMW disposed. Where an authority wishes, it can buy and sell allowances, but where insufficient allowances are held an authority is subject to a financial penalty.

Under the terms of the scheme, landfill usage is verified and the resulting liability settled after the year end. Unused landfill allowances are normally held on the balance sheet at the lower of cost and net realisable value. However, authorities are not permitted to carry forward unused allowances into 2010/11 and therefore the value as at 31 March 2010 is nil (31 March 2009 nil).

### 32 Short Term Investments

These represent balances invested by the Council as at 31 March. The investments are not repayable on demand but are repayable within the next twelve months.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 33 Creditors and Receipts in Advance

Creditors represent monies owed by the Council at the balance sheet date for services and goods already received. Receipts in advance represent monies which the Council has received for services not yet provided by the Council, or to fund schemes which have not yet taken place.

31 March 2009			31 March 2010
£000s	Restated £000s		£000s
		<u>Creditors</u>	
10,012	10,012	HM Revenue and Customs	4,429
7,100	7,100	Interest on Borrowing	6,825
7,932	7,932	Grants	9,275
49,653	52,440	Other Creditors	55,762
<u>74,697</u>	<u>77,484</u>	Total	<u>76,291</u>
		<u>Receipts in Advance</u>	
12,708	12,708	Capital Grants and Contributions	21,602
14,583	13,055	Other Receipts in Advance	15,032
<u>27,291</u>	<u>25,763</u>	Total	<u>36,634</u>
<u>101,988</u>	<u>103,247</u>	Total Creditors and Receipts in Advance	<u>112,925</u>

### 34 Deferred Liabilities

These represent liabilities, payable beyond the next year, on finance leases and former Joint Committees' debt where the responsibility for the loan management has been taken on by other local authorities in West Yorkshire.

31 March 2009			31 March 2010
£000s	Restated £000s		£000s
1,050	1,050	Finance Lease obligations	1,050
4,291	4,291	Former Joint Committees' debt	4,111
0	74,081	PFI	71,370
<u>5,341</u>	<u>79,422</u>		<u>76,531</u>

### 35 Provisions

Provisions have been made for the following issues:

31 March 2009 £000s		Additions/ Reductions £000s	Utilised £000s	31 March 2010 £000s
22,806	*Organisational Risk	6,133	-4,996	23,943
239	Other	0	-196	43
<u>23,045</u>		<u>6,133</u>	<u>-5,192</u>	<u>23,986</u>

\* The organisational risk provision has been formed by combining the Insurance provision and the Equal Pay Compensation Provision.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The insurance element of the organisational risk provision covers forecast costs relating to Employer's Liability, Public Liability, Motor, Fire and Miscellaneous risks.

The nature of insurance claims, particularly liability claims, means that there can be significant lead in times as claimants do not need to lodge claims for some time after the event occurred. For each insurance claim received an expected value is calculated based on best known estimates at the time: the figures used are derived from those calculated during the actuarial valuation in 2008/09. Settlement, depending on the nature of the claim, will usually be expected to be within 3 months to 4 years depending on circumstances.

The value and legitimacy of insurance claims depends on circumstances and will be a combination of compensation and legal costs.

A separate reserve (see note 38) exists to cover uninsured and unexpected losses which may arise from possible claims for third party asbestos, flooding and environmental impairment (pollution). It is not possible to state with any certainty the amount or timing of the likely use of the reserve due to the nature of the risks covered.

The other element of this provision has been made to meet compensation payments arising from equal pay claims from certain groups of employees. However, statutory arrangements allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established. The Council was granted a capitalisation Direction in the year to pay for the equal pay compensation and as such £7.4 million has been charged to capital in the year.

### 36 Grants Deferred Account

Grants and contributions relating to assets are credited to a Grants Deferred Account. Grants and contributions relating to fixed assets are released to service revenue accounts over the useful life of the asset; those relating to expenditure on Deferred Charges are written off to service revenue accounts in the year of expenditure; and those related to capital financing which cannot be identified to particular assets or services are credited in the year of receipt to the Income and Expenditure Account below Net Operating Expenditure.

2008/09		2009/10
£000s		£000s
97,869	Balance at 1 April	120,201
29,478	Grants and contributions received in year	41,084
	Grants and contributions written off in year -	
-6,035	Amounts relating to Fixed assets	-7,295
-1,111	Amounts relating to capital expenditure which cannot be identified to particular assets or services	-1,565
120,201	Balance at 31 March	152,425



## NOTES TO THE CORE FINANCIAL STATEMENTS

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### 37 Deferred Income

This balance represents the benefits that the Council is deemed to receive over the life of its PFI contract for waste disposal services, through its control of the services provided through use of the property and plant. It arises as a significant part of the PFI operator's income is derived via third party income, thus reducing the Council's unitary payments and effectively financing a proportion of the assets. The balance is released to the Income and Expenditure Account over the life of the contract, with a corresponding appropriation from the Capital Adjustment Account to the Statement of Movement on the General Fund Balance.

2008/09		2009/10
£000s		£000s
Restated		
8,056	At 1 April	7,519
<u>7,519</u>	At 31 March	<u>6,982</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 38 Notes on Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans. Detailed notes on each reserve follow the summary below unless explicitly stated otherwise.

#### ▪ Summary of Movements on Reserves

1 April 2009			Net Movement In Year	31 March 2010	Main Purpose of Reserve
£000s	Restated £000s		£000s	£000s	
903,386	1,026,293	Capital Adjustment Account	-797	1,025,496	Store of capital resources set aside to meet past expenditure.
-3,081	-3,081	Financial Instruments Adjustment Account	-3,720	-6,801	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments.
0	-787	Collection Fund Adjustment Account	-1,226	-2,013	See collection fund accounts on page 92.
-4,700	-4,700	Unequal Pay Back Pay Account	4,700	0	Holding back pay deferred under statutory regulations
155,027	204,202	Revaluation Reserve	45,363	249,565	Store of gains on revaluation of fixed assets not yet realised through sales.
-164	-164	Available-for- Sale Financial Instruments Reserve	-167	-331	Store of gains/losses(-) on revaluation of investments not yet realised through sales.
7,000	7,000	Capital Receipts Reserve	0	7,000	Proceeds of fixed asset sales available to meet future capital investment.
151	151	Deferred Credits	-30	121	Sale of assets received in instalments over agreed periods of time.
-380,111	-380,111	FRS17 Pensions Reserve	-424,793	-804,904	Balancing account to allow inclusion of Pensions Liability in Balance Sheet.
17,590	17,590	Major Repairs Reserve	1,447	19,037	Resources available to meet capital investment in council housing – note 4 to HRA.
36,745	42,921	Earmarked Reserves	-988	41,933	Various uses – see page 69.
34,781	34,781	General Fund Balance	-15,610	19,171	Resources available to meet future running costs for General Fund services – see Statement of Movement on the General Fund Balance – note 16.
25,970	25,970	Housing Revenue Account Balance	994	26,964	Resources primarily available to meet Decent Homes Programme – see Statement of Movement on HRA Balance.
-906	0	Collection Fund Balance	0	0	
<b>791,688</b>	<b>970,065</b>		<b>-394,827</b>	<b>575,238</b>	

## NOTES TO THE CORE FINANCIAL STATEMENTS

### ▪ Capital Adjustment Account

The Capital Adjustment Account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans, and the amount of capital expenditure financed from revenue, capital receipts and capital grants. It also contains the difference between the amount provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. The CAA is not available to meet revenue or capital expenditure.

2008/09			2009/10
£000s	Restated £000s		£000s
1,076,326	1,087,363	Balance at 1 April	1,026,293
0	113,914	Adjustment relating to VC church schools/ other assets	0
1,175	1,175	Adjustment from Revaluation Reserve relating to 2007/08	0
-184,822	-191,398	Depreciation and impairment	-62,795
0	0	Reversal of impairment	43,052
16,102	18,402	Provision for repayment of debt	21,264
7,147	7,684	Grants deferred amortisation	9,397
-714	0	Deferred consideration	0
-7,125	-7,125	REFCUS, net of grant	-11,559
4,043	4,043	Capital Receipts applied	4,106
11,105	12,086	Direct revenue financing	10,764
-10,879	-10,879	Disposal of assets	-15,619
749	749	Writing down of revaluation gains due to asset disposal	4,724
2,343	2,343	Writing down of revaluation gains due to depreciation	4,941
-12,062	-12,062	Housing Resource Accounting	-1,688
0	0	Capitalisation of Equal Pay claims	-7,383
-2	-2	Other	-1
<u>903,386</u>	<u>1,026,293</u>	Balance at 31 March	<u>1,025,496</u>

Figures for 2008/09 have been restated to bring Voluntary Controlled Church schools which had previously not been treated as our assets onto the balance sheet. In addition prior year adjustments have been done to account for PFI assets which are now also on balance sheet.

### ▪ Financial Instruments Adjustment Account

This account provides a balancing mechanism between different rates at which gains and losses (such as premiums on the early repayment of debt and soft loans) are recognised under the SORP and are required by statute to be met from the General Fund. The balance on this account does not represent resources available to the Authority.

2008/09			2009/10
£000s			£000s
-3,099		Balance at 1 April	-3,081
189		Premiums and discounts written down in the year	188
-171		Soft loans given in the year	-3,946
0		Soft loan written down in the year	38
<u>-3,081</u>		Balance at 31 March	<u>-6,801</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

▪ Unequal Pay Back Pay Account

This account absorbs the effect of applying statutory provisions that allow the impact on the General Fund of settlements of back pay to be deferred until cash is actually paid (rather than when a provision becomes necessary).

2008/09 £000s		2009/10 £000s
0	Balance at 1 April	-4,700
-4,700	Provision made but impact deferred	0
0	Charge in year	-2,683
0	Capitalisation direction utilised	7,383
<u>-4,700</u>	<u>Balance at 31 March</u>	<u>0</u>

▪ Revaluation Reserve

This Reserve represents the store of gains on revaluation of fixed assets not yet realised through disposal. The Revaluation Reserve was created on 1 April 2007 with a zero opening balance and therefore the closing position on the Reserve at 31 March 2010 only shows revaluation gains accumulated since 1 April 2007. This reserve is not available to meet revenue or capital expenditure.

2008/09 £000s	2008/09 Restated £000s		2009/10 £000s
171,377	171,377	Balance at 1 April	204,202
-1,175	-1,175	Adjustment to Capital Adjustment Account relating to 2007/08	0
-12,083	37,092	Gains/ losses on the revaluation of fixed assets	55,029
-2,343	-2,343	Writing down of revaluation gains due to depreciation	-4,941
-749	-749	Writing down of revaluation gains on disposal	-4,724
<u>155,027</u>	<u>204,202</u>	<u>Balance at 31 March</u>	<u>249,566</u>

▪ Available-for-Sale Financial Instruments Reserve

This Reserve records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets. This reserve is matched by investments within the Balance Sheet and as such the resources are not available to the Authority.

2008/09 £000s		2009/10 £000s
398	Balance at 1 April	-164
0	Unrealised investment revaluation gains	16
-562	Unrealised investment revaluation losses	-183
<u>-164</u>	<u>Balance at 31 March</u>	<u>-331</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

▪ Capital Receipts Reserve

The Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years, after transferring payments to the Government Housing Receipts Pool.

2008/09 £000s		2009/10 £000s
7,380	Balance at 1 April	7,000
6,876	Capital receipts received	5,921
-3,213	Payments to Government Pool transferred to Income and Expenditure Account	-1,815
11,043		11,106
-4,043	Capital receipts applied in year	-4,106
7,000	Balance at 31 March	7,000

▪ FRS17 Pensions Reserve

2008/09				2009/10		
LGPS £000s	Teachers £000s	Total £000s		LGPS £000s	Teachers £000s	Total £000s
-361,142	-46,651	-407,793	Balance at 1 April	-339,338	-40,773	-380,111
28,635	3,100	31,735	Pension cost payable to Pension Fund	42,763	3,291	46,054
46,624	6,358	52,982	Actuarial gain/ loss (-)	-388,530	-11,184	-399,714
-53,455	-3,580	-57,035	Reversal of FRS17 entries	-66,422	-4,711	-71,133
-339,338	-40,773	-380,111	Balance at 31 March	-751,527	-53,377	-804,904

## NOTES TO THE CORE FINANCIAL STATEMENTS

### ▪ Earmarked Reserves

The Council has the following earmarked reserves to cover specific areas of expenditure and risk:

31 March 2009 £000s	31 March 2009 (Restated) £000s		Net Movement in Year £000s	31 March 2010 £000s
12,308	12,308	Local Management of Schools	-2,155	10,153
7,769	7,769	Standards Fund	692	8,461
366	366	Asylum Seekers	14	380
1,500	1,500	Insurance Fund	0	1,500
5,155	5,155	Pensions Reserve	0	5,155
4,977	4,977	Organisational Risk Reserve	0	4,977
1,136	1,136	Primary Care Trust Joint Working Reserve	-687	449
820	820	Strategic Office Accommodation Review	-134	686
0	0	Adverse Weather Reserve	500	500
0	6,175	PFI Reserve	187	6,362
2,714	2,715	Other	595	3,310
36,745	42,921		-988	41,933

- The Local Management of Schools Reserve relates to individual school balances/deficits carried forward to following years under the terms of the Education Reform Act 1988. The balance at 31 March 2010 represents 183 schools with cumulative balances of £10.7 million (186 schools and £12.7 million at 31 March 2009) and 9 schools with cumulative deficits amounting to £0.5 million (6 schools and £0.4 million at 31 March 2009).
- The Standards Fund Reserve represents underspendings against Standards Fund allocations for 2009/10 and will be used to supplement future spending on Education.
- The Asylum Seekers Reserve has been set up with the aid of government funding to fund future expenditure on Asylum Seekers.
- The Insurance Fund covers risks that have not been insured and provides a reserve for worse case scenarios, over and above the Insurance Provision which is based on likely outcomes.
- The Pensions Reserve has been set up to meet the capitalised costs of unfunded pensions.
- The Organisational Risk Reserve (replacing the former Single Status and Equal Pay Reserve) is set aside for cross Council one-off employee costs and risks.
- The Primary Care Trust Joint Working Reserve has been set up to allow longer term use of additional resources generated from and for joint working with the PCT.
- The Strategic Office Accommodation Reserve has been established to fund one off costs arising from the Strategic Office Accommodation Review over the next three years.
- The Adverse Weather Reserve has been set up to deal with costs arising from unanticipated adverse weather.
- The PFI Reserve has been set up to fund the prepayments to the contractors, established from the PFI contract models.

### 39 Contingent Liabilities

- The Council has given guarantees for outstanding contributions to Pension Funds, in the event of default by the following bodies: Calderdale and Kirklees Careers Company Ltd, Fresh Horizons, North Kirklees CAB, Kirklees Active Leisure, and Deighton and Sheepridge Partnership.
- The Council is participating with Huddersfield Sporting Pride Ltd, in the development, construction and running of a sports stadium at Bradley Mills Road, Huddersfield, through Kirklees Stadium Development Ltd (KSDL). The Council originally guaranteed the financing of the construction of the stadium, pending the receipt of funds. The loan has been restructured and the Council has guaranteed the new loan of £7.4 million, to be repaid over

## NOTES TO THE CORE FINANCIAL STATEMENTS

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twenty years commencing in February 2001. As at 31 March 2010, the balance on the loan was £5.2 million (£5.5 million at 31 March 2009). The Council has also agreed to guarantee English Partnership's investment of £1.7 million in the North Stand development of the project and a loan of £0.9 million to the Company in respect of the construction of an indoor sports facility at Leeds Road Playing Fields. As at 31 March 2010, the balance on the loan was £0.45 million (£0.56 million at 31 March 2009).

- The Council has given an indemnity for direct loss and economic loss up to £2.0 million plus inflation to date to the lessee of a reclaimed site in respect of pollution arising from contaminants on the site at the date of the lease.
- The main local government pay settlement in 2004 requires local authorities to implement single status pay and conditions arrangements. As part of this process, the Council has been holding negotiations on backdated equal pay and equal value claims and has reached agreement during 2008/09 in relation to some categories of these. A contingent liability exists in relation to the risk that the provision made for equal pay claims is insufficient and for the emerging risk of claims facing all Councils under equal value legislation.
- A contingent liability exists in relation to local search information. There is a conflict between the Local Authorities (England) (Charges for Property Searches) Regulations 2008 and the Environmental Information Regulations 2004 in relation to the level of charges levied, which dependent on the legal resolution, may lead to private search companies claiming back previously paid fees.

### **40 Contingent Asset**

The Council has various actual claims lodged for VAT refunds which, if successful, could total £9.3 million, excluding interest. The main one concerns VAT on off street car parking, where the VAT and Duties Tribunal ruled in January 2006 that local authorities should not be required to charge VAT on off street car parking because they operate under a special legal regime. However, HM Revenue & Customs have since lodged an appeal and the legal process is still continuing.

### **41 Events after the Balance Sheet Date**

These accounts were authorised for issue on the date the Director of Finance & Performance signed the final version – see Statement of Responsibilities and Certificate on page 11. There has been one event occurring between the Balance Sheet date and the date when the accounts were authorised for issue and this is noted below:

#### The change to the pension increase indexation

The Chancellor announced in his Emergency Budget on 22 June 2010 that, from April 2011, increases to Public Sector pensions will be linked to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) which is currently used. This will be significantly lower than the current basis used and as such the value of the pension liabilities figure shown in the Balance Sheet on page 30 (£804.9 million) and in the Pensions Disclosure (pages 72 to 77) is likely to reduce by around 6 to 10% (£48 – £80.5 million). This would result in a pensions liability of somewhere between £724.4 million and £756.9 million.

### **42 Trust Funds**

The Council administers over fifty funds which are held in trust for such purposes as grants, scholarships and book prizes, or for the benefit and care of particular client groups. The Council is actively considering options for a number of trust funds (including two that are in deficit) to ensure their future viability. This includes continued financial support by the Council and the exploration of the involvement of external parties.

The Council also administered Deighton Brackenhall Initiative (DBI). This Initiative invests a community dividend, received from a housing regeneration project, to improve the lives of and provide long-term benefits to the residents in the area. The overall stewardship and responsibility for the DBI board and its use of funds was given to Kirklees Community Association (KCA). During the year the DBI was judged by the Council to have sufficiently proven itself to take on governance

## NOTES TO THE CORE FINANCIAL STATEMENTS

of the funds, and therefore DBI Ltd was established, the relationship with KCA ceased and the funds transferred out of trust.

Trust funds do not represent assets of the Council and are not included in its Income and Expenditure Account and Balance Sheet.

Income and Expenditure Account:

2008/09 Balance £000s		Income £000s	2009/10 Expenditure £000s	Balance £000s
	<b><u>Trust Funds for which Council is sole trustee -</u></b>			
2,979	Dewsbury Endowed Schools	79	21	3,037
215	Algernon Firth Trust	-	-	215
87	Kayes School	-	-	87
42	Festival of Britain	-	-	42
15	Wartons Charity	-	-	15
16	Huddersfield Enclosure Act	-	-	16
18	Other (9 separate funds each with a balance less than £10,000)	-	-	18
3,372		79	21	3,430
	<b><u>Trust Funds for which Council is not sole trustee -</u></b>			
6,694	Deighton Brackenhall Initiative	-	*6,694	-
239	William Henry Coulter	23	22	240
122	Lockwood Mechanics	-	-	122
-170	William Greenwood Homes	-	-	-170
-25	Fletcher Homes	15	8	-18
25	Golcar Township	98	26	97
41	Roebuck Memorial	17	6	52
86	Huddersfield Orphan Homes	4	6	84
20	Batley Enclosure Act	-	-	20
10	Cleckheaton Cemetery	-	-	10
10	Scissett Baths	-	-	10
106	Other (28 separate funds each with a balance less than £10,000)	5	3	108
7,158		162	6,765	555
10,530		241	6,786	3,985

\* See notes prior to the table



## NOTES TO THE CORE FINANCIAL STATEMENTS

### Balance Sheet:

31 March 2009 £000s		31 March 2010 £000s	£000s
2,494	Fixed Assets		2,494
7,357	Investments		1,032
	Net Current Assets -		
1	Debtors	-	
682	Cash	460	
-4	Less Creditors	-1	459
10,530			3,985
	Represented by -		
10,443	Capital Balances		3,898
87	Revenue Surpluses		87
10,530			3,985

### 43 Pensions Disclosures

#### Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment which needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two pension schemes:

- The Local Government Pension Scheme (LGPS) – a funded defined benefit final salary scheme administered by the West Yorkshire Pension Fund whereby the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets in the long term.
- Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency. Under the Code, this scheme is classed as a multi-employer defined benefit scheme for which liabilities of individual employers cannot be separated. The scheme is therefore treated as a defined contribution scheme under the SORP. In 2009/10, the Council paid £17.4 million (2008/09 £17.0 million) to the Pensions Agency in respect of teachers' retirement benefits, representing 14.1% (2008/09 14.1%) of pensionable pay. A payment of £1.5 million was owing to the Agency as at 31 March 2010 (31 March 2009 £1.5 million). In addition, the Council has granted discretionary additional pensions to some of its former teachers, for which it is directly responsible. These are treated as a defined benefit scheme.

#### Transactions Relating to Retirement Benefits

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

## NOTES TO THE CORE FINANCIAL STATEMENTS

2008/09			<b>Income and Expenditure Account</b>	2009/10		
LGPS	Teachers	Total		LGPS	Teachers	Total
£000s	£000s	£000s		£000s	£000s	£000s
			<i>Net Cost of Services:</i>			
-38,252	0	-38,252	Current service cost	-26,804	0	-26,804
0	0	0	Past service cost	-10,968	-1,866	-12,834
-687	-829	-1,516	Curtailement loss	0	0	0
			<i>Net Operating Expenditure:</i>			
-78,188	-2,751	-80,939	Interest cost	-76,656	-2,845	-79,501
63,672	0	63,672	Expected return on assets in the scheme	48,006	0	48,006
-53,455	-3,580	-57,035	Net charge to I&E Account	-66,422	-4,711	-71,133
			<i>Statement of Movement in the General Fund Balance:</i>			
53,455	3,580	57,035	Reversal of net charges made for retirement benefits	66,422	4,711	71,133
			<i>Actual amount charged against General Fund Balance for pensions in the year:</i>			
-28,635		-28,635	Employers' contributions payable to scheme	-42,763		-42,763
	-3,100	-3,100	Retirement benefits payable to pensioners		-3,291	-3,291

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £399.7 million (£53.0 million gain for 2008/09) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains & Losses is £450.9 million.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

31 March 2009				31 March 2010		
LGPS £000s	Teachers £000s	Total £000s		LGPS £000s	Teachers £000s	Total £000s
-1,276,542	-46,651	-1,323,193	1 April	-1,075,702	-40,773	-1,116,475
-38,252	0	-38,252	Current Service Cost	-26,804	0	-26,804
-78,188	-2,751	-80,939	Interest cost	-76,656	-2,845	-79,501
-13,161	0	-13,161	Contributions by scheme participants	-14,437	0	-14,437
290,161	6,358	296,519	Actuarial gains and losses	-603,870	-11,184	-615,054
40,967	3,100	44,067	Benefits/transfers paid	44,181	3,291	47,472
0	0	0	Past service costs	-10,968	-1,866	-12,834
-687	-829	-1,516	Curtailments	0	0	0
<u>-1,075,702</u>	<u>-40,773</u>	<u>-1,116,475</u>	31 March	<u>-1,764,256</u>	<u>-53,377</u>	<u>-1,817,633</u>

The increase in liability values mainly arises from increases in anticipated life expectancy for current and future pensioners.

Reconciliation of fair value of the scheme assets:

31 March 2009			31 March 2010	
LGPS £000s			LGPS £000s	
915,400	1 April		736,364	
63,672	Expected rate of return		48,006	
-243,537	Actuarial gains and losses		215,340	
28,635	Employer contributions		40,507	
13,161	Contributions by scheme participants		14,437	
-40,967	Benefits paid		-41,925	
<u>736,364</u>	31 March		<u>1,012,729</u>	

There are no assets to cover the liabilities of Teachers' Discretionary Benefits. The increase in asset values on the LGPS reflects better investment returns during 2009-10.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year showed a return of £263.3 million (2008/09 negative return of £179.9 million).

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Scheme history

	2005/06*	2006/07	2007/08	2008/09	2009/10
	£000s	Restated £000s	Restated £000s	£000s	£000s
Present value of liabilities:					
LGPS Funded	-1,019,248	-1,033,809	-1,242,934	-1,047,184	-1,728,632
LGPS Unfunded	-31,600	-29,954	-33,608	-28,518	-35,624
Teachers	-38,614	-39,321	-46,651	-40,773	-53,377
Fair value of assets in the LGPS	828,492	891,412	915,400	736,364	1,012,729
Surplus/ deficit (-) in the scheme:					
LGPS	-222,356	-172,351	-361,142	-339,338	-751,527
Teachers	-38,614	-39,321	-46,651	-40,773	-53,377
Total	-260,970	-211,672	-407,793	-380,111	-804,904

\*The Council has elected not to restate fair value of scheme assets for 2005/06 as permitted by FRS 17 (as revised)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £804.9 million has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- Funding is only required to be raised to cover Teacher's Discretionary Benefits when the pensions are actually paid.

The total contributions expected to be made to the LGPS by the Council in the year to 31 March 2011 is £35.4 million. Expected contributions for the Teachers Pension Scheme in the year to 31 March 2011 are £17.6 million.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the LGPS and Teacher's Unfunded Discretionary Benefits liabilities have been assessed by Hewitt Associates Limited, an independent firm of actuaries, estimates for the LGPS being based on the latest full valuation of the West Yorkshire Pension Fund carried out as at 31 March 2007. Hewitts have recommended and used different assumptions for unfunded liabilities compared to the assumptions recommended for funded liabilities. This reflects comments made by auditors that the assumptions for unfunded liabilities should reflect the duration of these liabilities separately as they are not part of the LGPS.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The principal assumptions used by the actuary have been:

2008/09			2009/10		
LGPS	Teachers		LGPS	Teachers	
			Funded	Unfunded	
3.30%	3.30%	Rate of inflation	3.90%	3.80%	3.80%
5.05%	n/a	Rate of increase in salaries	5.65%	n/a	n/a
3.30%	3.30%	Rate of increase in pensions	3.90%	3.80%	3.80%
7.10%	7.10%	Rate for discounting liabilities	5.50%	5.50%	5.50%
50.00%	n/a	Take up of option to convert annual pension into retirement grant	57.00%	n/a	n/a
<u>Mortality assumptions (years):</u>					
Longevity at 65 for current pensioners:					
20.3	20.3	Men	21.8	21.8	21.8
24.0	24.0	Women	25.4	25.4	25.4
Longevity at 65 for future pensioners:					
21.3	n/a	Men	24.1	24.1	24.1
25.0	n/a	Women	27.9	27.9	27.9

Assets in the LGPS are valued at fair value, principally market value for investments, totalling £7,890 million for the Fund as a whole at 31 March 2010 (£5,950 million at 31 March 2009 – last year's accounts prepared using 31 December 2008 fund value £6,361 million). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

2008/09			2009/10	
Split between categories	Expected rate of return		Split between categories	Expected rate of return
%	%		%	%
62.0	7.5	Equity investments	71.6	8.0
12.3	4.0	Government Bonds	12.2	4.5
6.0	6.0	Other Bonds	3.4	5.5
4.2	6.5	Property	3.4	8.5
5.0	0.5	Cash/ liquidity	3.4	0.7
10.5	7.5	Other	6.0	8.0
100.0			100.0	

## NOTES TO THE CORE FINANCIAL STATEMENTS

### History of experience Gains and Losses

The actuarial gains/losses identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010.

	2005/06	2006/07	2007/08	2008/09	2009/10	
	%	As restated	As restated	%	Funded	Unfunded
	%	%	%	%	%	%
<u>LGPS</u>						
Difference between the expected and actual return on assets	14.5	1.1	-4.2	-33.1	21.3	n/a
Experience gains and losses on liabilities	-2.2	0	-6.5	0	0.6	2.5

	2005/06	2006/07	2007/08	2008/09	2009/10
	%	%	%	%	
<u>Teachers</u>					
Experience gains and losses on liabilities	0	0	-4.1	0	2.5

#### **44 Disclosures on Financial Instruments**

##### **Financial Instrument Balances**

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

31 March 2009			31 March 2010	
Long-Term	Current		Long-Term	Current
£000s	£000s		£000s	£000s
<u>Financial liabilities at amortised cost</u>				
414,901	3,618	PWLB	411,455	14,514
106,517	0	LOBOs	106,628	0
6,983	0	Loan Stock	6,983	0
4,291	187	Transferred debt	4,111	180
0	5,448	Other borrowing	0	4,107
<b>532,692</b>	<b>9,253</b>		<b>529,177</b>	<b>18,801</b>
<u>Financial assets</u>				
8,000	88,950	Loans and receivables	1,000	26,482
2,338	222	Available-for-sale financial assets	3,428	11,282
<b>10,338</b>	<b>89,172</b>		<b>4,428</b>	<b>37,764</b>

The Council has not pledged any collateral for liabilities or received any pledge of collateral on its investments.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **Financial Instrument gains and losses**

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost £000s	Loans and receivables £000s	Available-for-sale assets £000s	£000s
Interest expense	-28,958	0	0	-28,958
Losses on derecognition	-87	0	0	-87
Impairment losses	0	-1,164	0	-1,164
Interest payable and similar charges	-29,045	-1,164	0	-30,209
Interest income	0	1,306	0	1,306
Deficit arising on revaluation of financial assets	0	0	-167	-167
Net gain /loss(-) for the year	-29,045	142	-167	-29,070

### **Fair Value of assets and liabilities carried at amortised cost**

Financial liabilities and assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments.

The fair values for financial liabilities and assets are as follows:

31 March 2009			31 March 2010	
Carrying amount £000s	Fair value £000s		Carrying amount £000s	Fair value £000s
		<u>Financial liabilities</u>		
418,519	474,400	PWLB	425,969	462,164
106,517	92,185	LOBOs	106,628	124,119
6,983	13,693	Loan Stock	6,983	13,318
4,478	5,037	Transferred debt	4,291	4,974
5,448	5,448	Other borrowing	4,107	4,107
541,945	590,763		547,978	608,682
		<u>Financial Assets</u>		
101,926	101,926	Loans and Receivables	27,482	27,482
526	526	Available for Sale	11,522	11,521
102,452	102,452		39,004	39,003

This calculation is based on interest rates quoted for long term loans at 31 March by the Public Works Loan Board for the early repayment of loans, except for some market loans where current comparable market rates have been indicated by the Council's treasury management consultants. Liabilities, such as short-term trade payables, have been excluded from the table as it is assumed that the carrying value will be a reasonable approximation of fair value.

The fair value of liabilities is more than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates

## NOTES TO THE CORE FINANCIAL STATEMENTS

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available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount the Authority would have to pay if the lender requested or agreed to early repayment of the loans.

The carrying amount of loans and receivables is deemed to be approximate to fair value because of the relatively short periods to maturity.

The Council has provided funding for the purchase, or part purchase, and renovation of properties via Registered Social Landlords. These properties are then offered as affordable housing, with the Council taking a percentage equity stake. When the property is sold, the Council will receive the same percentage of the sale price, and thus the value of the stake is subject to housing market fluctuations. The value of this investment was £3.1 million as at 31 March 2010.

The Council has several equity instruments, which have no quoted market price. The value in the Balance Sheet has been arrived at as follows:

- Kirklees Henry Boot Partnership Ltd – 62,500 shares, including premium, currently valued in the Balance Sheet at £0.1 million. Valuation is based on an in-house assessment of net assets, but included a professional valuation of shares owned by the company. The company is in the process of winding up its operations and the shares owned by the company are expected to transfer to the Council.
- Kirklees School Services Ltd – 163,140 ordinary shares, currently valued in the Balance Sheet at £0.2 million. Valuation is based on discounted cash flow techniques. This company is responsible for running one of the Council's PFI contracts (see note 8ii), and whilst this continues, it is very unlikely the Council would dispose of its interest.
- QED Ltd – 32,200 ordinary shares, currently valued in the Balance Sheet at £0.2 million. Valuation is based on discounted cash flow techniques. This company is responsible for running one of the Council's PFI contracts (see note 8iii), and whilst this continues, it is very unlikely the Council would dispose of its interest.
- Sita Kirklees Ltd – small number of shares, carried at negligible value. Valuation is based on an assessment of share of future cash flows. This company is responsible for running one of the Council's PFI contracts (see note 8i), and whilst this continues, it is very unlikely the Council would dispose of its interest.
- Kirklees Stadium Development Ltd – 40 shares, carried at negligible value. Valuation is based on an assessment of share of future cash flows. The Council has no intention of disposing of its interests in the company.
- Sebel House Great Northern Ltd – 190 shares, carried at negligible value as the company is dormant.
- Kirklees Neighbourhood Housing Ltd – subsidiary, carried at nil value. Valuation is based on an assessment of share of future cash flows. The Council has no intention of disposing of its interests in the company.
- Kirklees Metropolitan Development Company Ltd - subsidiary, carried at nil value. Valuation is based on an assessment of share of future cash flows. The Council has no intention of disposing of its interests in the company.

### **Disclosure of nature and extent of risks arising from financial instruments**

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority.
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and other financial market movements.

The Council's overall risk management programme focuses on minimising any potential adverse effects on the resources available to fund services. Procedures for risk management on treasury management are set out in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code and investment guidance issued under the Act. The Director of Finance & Performance manages the function on behalf of the Authority under policies approved



## NOTES TO THE CORE FINANCIAL STATEMENTS

by Members in the annual treasury management strategy and the treasury management policy statement and practices.

### **Credit risk**

Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the authority's customers. Deposits were not made with banks and other financial institutions unless they were rated by one of the main credit rating companies with a minimum rating of F1+/F1 (Fitch) and P-1 (Moody's), or were a building society with assets of more than £1 billion. The Council has a policy of not lending more than £10 million of its surplus balances to any counterparty and not more than £3.0 million to any counterparty for investments longer than one year. The Council does not make investment commitments longer than three years.

2009/10 has seen a continuation of the previous year's economic trends. The Council has continued to review investment options and has again reduced investment levels.

During the year, investments decreased from £99.5 million to £42.2 million as the Council opted to use available balances to either repay existing borrowing or offset new borrowing requirements. Included in this balance is an investment in a failed Icelandic bank. Latest indications are that the Council will recover around 83% of the monies dependent on an assumption that local authority creditors have preferential status. The value of the investment has been written down by a further 12% in the accounts to £830,000.

The table below shows the value of investments/ cash deposits placed with institutions as at 31 March 2010 by credit rating. The ratings of some institutions have fallen since the date of the investment:

Credit Rating Fitch/Moody	Investment Value £000s
F1+/P1	37,848
Impaired Investment	830
	<hr/>
	38,678

The Council provided funding in 2008-2009 for the redevelopment of private housing in Ravensthorpe. The funding was secured by way of a percentage equity stake in the properties. This has been treated as a soft loan in the accounts and accordingly the value of the amount advanced has been written down from £0.4 million to a fair value of £0.2 million. One loan has been repaid in the year.

The Council has also provided funding to support Kirklees College's Waterfront Development. A loan of £23.3 million was taken from PWLB and lent to the College. This has also been treated as a soft loan in the accounts and an accounting adjustment has been carried out writing down £3.708 million to Children's and Young People's Service. The College will still repay the full amount of the loan by 2034/35. The Council is recovering its costs in respect of the loan.

The Council has provided funding to Kirklees householders in respect of renewable energy works. There is a charge on the properties. This has been treated as a soft loan in the accounts. The amount advanced in the year was £0.5m and this has been written down to a fair value of £0.3 million.

The Council does not generally allow credit for customers and trade debts are actively pursued after 21 days. As at 31 March 2010, the Council had a balance owing from its customers (mainly services and rent) of £34.2 million.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **Liquidity risk**

As well as keeping some investments in instant access deposit accounts, the Council has ready access to borrowings from the Public Works Loan Board. Because of this, there is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the Authority will be bound to replenish its borrowings at less favourable rates or, alternatively, liquidate its investments at more favourable rates. The strategy is to ensure that the loan repayment profile is even with no more than 10% of loans due to mature in any one year. The maturity analysis of borrowing is shown below.

	31 March 2010 £000s
Less than one year	18,610
Between 1 and 2 years	13,944
Between 2 and 5 years	47,900
Between 5 and 10 years	58,437
Between 10 and 15 years	33,759
More than 15 years	371,037
	<hr/> 543,687

### **Market risk**

#### **Interest Rate Risk**

The Council is exposed to significant risk in terms of its exposure to interest rate movements in particular on borrowings. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure account will rise.
- Borrowings at fixed rates – the fair value of the liabilities will fall.
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise.
- Investments at fixed rates – the fair value of the assets will fall.

The Council has a number of strategies for managing interest rate risk. Policy is to keep a maximum of 40% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans may be repaid to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates and provide compensation for a proportion of any higher borrowing costs.

The treasury management strategy is proactive, providing for the constant assessment of interest rate exposures and deciding whether new borrowing taken out is fixed or variable.

As at 31 March 2010, the Council held few investments at variable rates. In terms of borrowing, the Council holds £20 million of variable rate loans from PWLB. These loans have their interest rates reset every 6 months and can be changed to fixed rate loans at any time after an initial one year period. The Council also holds £105.0 million of debt in the form of LOBOs (Lender Option, Borrower Option), which equates to 20% of its total borrowing. LOBO agreements have periodic option dates on which lenders can opt to change the interest rate on a loan. If lenders exercise their option then the Council can either repay the loan (at no extra cost) or agree to the change of interest rate for the remaining term of the loan or until the lender chooses to exercise the option again. Of the £105.0 million LOBO debt at 31 March 2010, £75.0 million was exposed to variable rates through lender options. A 1% change in interest rates with all other variables held constant would increase or decrease interest costs by £0.95 million. A further £10 million is held in the form of a Range LOBO whereby if the 6 month LIBOR figure is between 4% and 6% the rate of interest payable is 3.4%. If 6 month LIBOR is outside this range the rate of interest payable is 4.1%.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The fair value of fixed rate borrowings would decrease by around £75 million if interest rates increased by 1%, and increase by the same figure if rates decreased by 1%.

### Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £0.5 million in a number of joint ventures. The Authority is consequently exposed to losses arising from movements in the values of the shares. As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

The shares are all classified as “available-for-sale”, meaning that all movements in value will impact on gains and losses recognised in the STRGL. However, because of the relatively small overall value, any general shift (positive and negative) in values would not result in a material gain or loss being recognised in the value of shareholdings.

### Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies, other than a small amount in a Euro Bank account relating to grants from the EEC for environmental projects. In this way, the Council has little exposure to loss arising from movements in exchange rates.

## 45 Notes to the Cash Flow Statement

### ▪ Reconciliation of Net Movement on the Income and Expenditure Account to Revenue Activities Net Cash Flow

This reconciliation identifies items included within the Income and Expenditure Account that do not result in cash flows under the revenue activities in the statement.

2008/09			2009/10
£000s	£000s		£000s
	Restated		
-191,769	-193,724	Income and Expenditure Account Deficit for the year	-49,958
-678	0	Movement on the Collection Fund Balance	0
22,080	28,036	Interest	32,847
-440	-440	Dividends	-628
		Non-cash transactions -	
25,300	25,300	Movement on Pensions Reserve	25,079
367	367	Movement on Landfill Allowance Trading Reserve and SSA dispute	76
195,701	201,025	Various capital accounting entries	34,430
2,968	2,968	Provisions including those for bad debts	941
171	171	Accounting for Financial Instruments	3,922
54	54	Premiums	-23
		Items on an accruals basis -	
-427	-427	Increase(-)/decrease in stock	319
-5,596	-6,389	Increase in revenue debtors	-8,060
6,238	6,238	Increase in revenue creditors	1,158
53,969	63,179	Net Cash Inflow from Revenue Activities	40,103

## NOTES TO THE CORE FINANCIAL STATEMENTS

### ▪ Analysis of Net Cashflow to Movement in Net Debt

2008/09			2009/10
Change £000s	Change £000s		Change £000s
	Restated		
-9,431	-9,431	Increase/decrease(-) in cash in period	10,935
-23,178	-23,205	Cash used to increase liquid resources	-66,913
36,692	36,692	Cash used to repay debt	66,612
-25,647	-25,647	New loans	-72,798
391	2,578	Net cash used to repay leasing obligations and transferred debt	3,026
-21,173	-19,013	Change in net debt	-59,138
5,256	5,256	Adjustments re accounting for Financial Instruments and other non cash adjustments	-154
-15,917	-13,757		-59,292
-428,919	-505,923	Net debt at beginning of period	-519,680
-444,836	-519,680	Net debt at end of period	-578,972

2008/09		1 April	31 March	2009/10
Change £000s	Change £000s	2009 £000s	2010 £000s	Change £000s
	Restated			
<u>Analysis of changes in net debt</u>				
-11,401	-11,401	8,986	26,660	17,674
1,970	1,970	0	-6,739	-6,739
25,028	25,028	-528,401	-525,066	3,335
-7,225	-7,225	-9,065	-18,621	-9,556
391	2,578	-82,448	-79,421	3,027
-24,680	-24,707	91,248	24,215	-67,033
-15,917	-13,757	-519,680	-578,972	59,292

### ▪ Analysis of Changes in Management of Liquid Resources

2008/09		1 April	31 March	2009/10
Change £000s	Change £000s	2009 £000s	2010 £000s	Change £000s
	Restated			
24,680	24,680	89,172	12,932	76,240
0	27	2,076	11,283	-9,207
24,680	24,707	91,248	24,215	67,033
-1,502	-1,502			-120
23,178	23,205			66,913

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council's liquid resources consist of:

- Short Term Investments repayable not on demand but within a period of twelve months. These instruments are used to assist in the management of the Council's cash flow.
- Other liquid resources, basically NNDR receipts under or overpaid to the Government and Council Tax receipts under or overpaid to major preceptors.

### ▪ Analysis of Changes in Financing

2008/09			1 April	31 March	2009/10
Change	Change		2009	2010	Change
£000s	£000s		£000s	£000s	£000s
	Restated				
-25,028	-25,028	Long Term Borrowing	-528,401	-525,066	-3,335
7,225	7,225	Short Term Borrowing	-9,065	-18,621	9,556
-391	-2,578	Deferred Liabilities, including those due in the next 12 months	-82,448	-79,421	-3,027
-18,194	-20,381		-619,914	-623,108	3,194
6,758	6,758	Adjustments re accounting for Financial Instruments and other non cash adjustments			-34
-11,436	-13,623				3,160

### ▪ Changes in Cash

2008/09			1 April	31 March	2009/10
Change			2009	2010	Change
£000s			£000s	£000s	£000s
-375	Cash in Hand		3,854	1,829	-2,025
1,970	Bank Overdraft		0	-6,739	-6,739
-11,026	Deposits repayable on demand		5,132	24,831	19,699
-9,431			8,986	19,921	10,935

## NOTES TO THE CORE FINANCIAL STATEMENTS

▪ **Revenue Grants received from the Government**

The actual cash received from the Government in respect of revenue activities is detailed below:

2008/09 £000s		2009/10 £000s
241,262	Dedicated Schools Grant	249,965
26,951	DWP – Council Tax	31,511
39,165	DWP – Rent Allowance	53,063
44,412	DWP – Rent Rebate	45,892
32,552	Education Standards Fund	34,458
21,451	Area Based Grant	21,301
17,857	Revenue Support Grant	28,481
12,844	General Sure Start Grant	14,348
13,210	School Standards Grant	13,518
11,359	PFI	11,359
9,583	Learning and Skills Council Sixth Form Grant	10,693
10,593	Supporting People	10,594
8,819	Housing Revenue Account Subsidy	6,596
3,385	Housing Benefit and Council Tax Administration	3,811
3,030	Asylum Seekers	2,624
1,533	Performance Reward Grant	2,189
442	Social Care Reform Grant	1,657
319	Workstep Employment Initiative	281
1,790	Local Authority Business Growth Incentives	257
324	Youth Justice - Effective Practice	110
306	Civic Partnership	0
433	Local Area Agreement	0
7,495	Other	10,328
509,115		553,036
	<u>Government Grants associated with REFCUS</u>	
1,099	Education Standards Fund	1,123
1,265	Disabled Facilities	1,112
82	Dewsbury Housing Market Renewal	0
3,260	PSRG/SRHP (Housing)	2,682
961	Children Centres	1,418
0	Low Carbon	423
395	Other	454
516,177		560,248

**46 JANEs (a Joint Arrangement which is not an Entity)**

The Council acknowledges that the SORP requires the single entity accounts to include its share of the assets, liabilities and trading expenses of any JANE it is involved with. West Yorkshire Joint Services Committee is believed to be such an arrangement. The Council reflects its share of its contribution to this arrangement in income and expenditure (£1.3 million for 2009/10 and £1.3 million for 2008/09), but has not included its share of the assets and liabilities on the grounds of materiality.

## ADDITIONAL FINANCIAL STATEMENTS

### HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE ACCOUNT

This statement fulfils the statutory obligation to account separately for local authority housing provision as defined in particular in Schedule 4 of the Local Government and Housing Act 1989.

2008/09 £000s		2009/10 £000s	Note
	<u>Income</u>		
65,095	Dwelling rents (gross)	66,531	
643	Non-dwelling rents (gross)	635	
1,088	Charges for services and facilities	1,377	
1,385	Contributions towards expenditure	1,353	
8,425	HRA subsidy receivable (including the Major Repairs Allowance)	6,342	3
0	Reversal of impairment	32,046	
<b>76,636</b>	<b>Total Income</b>	<b>108,284</b>	
	<u>Expenditure</u>		
20,515	Repairs and maintenance	19,598	
15,603	Supervision and management	15,968	
3,368	Special services	3,993	
147	Rent, rates, taxes and other charges	83	
823	Increased provision for bad debts	544	
15,563	Depreciation and impairment (net of grant)	15,291	2
28	Debt management costs	33	
<b>56,047</b>	<b>Total Expenditure</b>	<b>55,510</b>	
<b>-20,589</b>	<b>Net Cost of Services as included in whole authority Income and Expenditure Account</b>	<b>-52,774</b>	
373	HRA share of Corporate & Democratic Core	373	
32	HRA share of Non-distributed costs	33	
72,415	Exceptional Item	0	
<b>52,231</b>	<b>Net Cost of HRA Services</b>	<b>-52,368</b>	
1,224	Loss on disposal of assets	437	5
-181	Other income defined as capital receipts but not arising from asset disposal	-291	
13,303	Interest payable and similar charges	11,206	
22	Amortisation of premiums and discounts	-9	
-2,090	Interest and investment income	-718	
<b>64,509</b>	<b>Surplus (-)/Deficit for the year on HRA services</b>	<b>-41,743</b>	

## ADDITIONAL FINANCIAL STATEMENTS

### STATEMENT OF MOVEMENT ON THE HRA BALANCE

The Income and Expenditure Account shows the HRA's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the surplus and deficit for the year on the HRA Balance has to be calculated in accordance with the requirements of the Local Government and Housing Act 1989. The statement below reconciles the outturn on the Income and Expenditure Account and to the movement on the HRA Balance.

2008/09 £000s		2009/10 £000s
64,509	Surplus (-)/ Deficit for the year on the HRA Income and Expenditure Account	-41,743
-62,678	Net additional amount required by statute to be debited/ credited (-) to the HRA Balance for the year (see note below)	40,749
1,831	<b>Increase (-)/ Decrease in the HRA Balance</b>	-994
-27,801	HRA surplus brought forward	-25,970
-25,970	<b>HRA surplus carried forward</b>	-26,964

### NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

2008/09 £000s		2009/10 £000s
	<u>Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year:</u>	
	Difference between amounts charged to Income and Expenditure and the charge for the year determined in accordance with statute:	
332	Amortisation of premiums and discounts	55
-72,939	Impairment	-363
0	Reversal of impairment	32,046
-181	Excess of depreciation charged to HRA over Major Repairs Allowance	-241
-1,224	Loss on disposal of fixed assets	-437
181	Other income defined as capital receipts but not arising from asset disposal	291
48	Grants deferred amortisation	47
-73,783		31,398
	<u>Items not included in the HRA Income and Expenditure Account but included in the movement on the HRA Balance for the year:</u>	
11,105	Capital expenditure funded by the HRA	9,351
-62,678	<b>Net additional amount required by statute to be debited/ credited (-) to the HRA Balance for the year</b>	40,749



**NOTES TO THE HRA**

**1** The Council acknowledges that it is proper accounting practice to fully recognise the effects of FRS17 in the HRA, but has not included them on the grounds of materiality.

**2 Depreciation and impairment**

The Council has adopted the Major Repairs Allowance (MRA) as a measure of depreciation for its dwellings. The MRA equates to the annual cost of maintaining the properties over a thirty year period. In 2008/09 due to the economic downturn all HRA assets were impaired and a total impairment charge of £72.414 million was charged to the Income & Expenditure account as an exceptional item (£0.524 million within the Service). For 2009/10 after review by the District Valuers no impairment has occurred. The valuation at 1<sup>st</sup> April 2009 has resulted in an increase in valuation creating a £32.046 million reverse impairment gain taken to the service Income and Expenditure account.

**3 Breakdown of HRA Subsidy Received**

HRA subsidy is paid by Central Government to meet any shortfall between expenditure and income on a notional HRA. The calculation is based on annual assumptions covering guideline rents, a number of allowances and other specific items of income and expenditure.

2008/09 £000s		2009/10 £000s
12,929	Allowance for Management	13,265
24,145	Allowance for Maintenance	24,248
14,906	Allowance for Major Repairs	14,732
19,496	Charges for Capital	18,040
-63,037	Guideline Rent Income	-63,933
-14	Interest on Receipts	-10
8,425	Total HRA Subsidy	6,342

**4 Major Repairs Reserve**

This reserve records the unspent balance of HRA subsidy paid in the form of major repairs allowance. The main credit to the reserve is an amount equivalent to the charge for depreciation on council dwellings. The reserve can be used to finance capital expenditure on HRA assets or repay HRA debt.

2008/09 £000s		2009/10 £000s
5,710	Balance at 1 April	17,590
-3,025	Capital Expenditure	-13,286
-181	Depreciation – non-dwellings	-241
15,086	Transfer to the reserve	14,974
17,590	Balance at 31 March	19,037

**5 Gains and Losses on Asset Disposals**

The SORP requires authorities to show gains and losses on asset disposals on the face of the Income and Expenditure Account. The figure for 2009/10 includes the value of council houses demolished as part of housing regeneration projects of £1.492 million (£3.287 million in 2008/09), net of differences between the balance sheet value and the actual sale receipts of council houses and land sold.

## ADDITIONAL FINANCIAL STATEMENTS

### 6 Movement in HRA Fixed Assets

	Council Dwellings	Other Land and Buildings	Non- operational Assets	Total Assets
	£000s	£000s	£000s	£000s
<u>Cost or Valuation</u>				
At 1 April 2009	707,030	4,393	7,455	718,878
Additions	23,478	0	94	23,572
Disposals	-2,893	0	0	-2,893
Revaluations - impairments	17,299	-440	-925	15,934
Reclassifications	0	0	0	0
Adjustments *	258	389	1,217	1,864
At 31 March 2010	745,172	4,342	7,841	757,355
<u>Depreciation and Impairments</u>				
At 1 April 2009	0	0	0	0
Depreciation charge for year	-14,732	-206	-13	-14,951
Written out - disposals	0	0	0	0
Written out - revaluations	14,743	240	0	14,983
Reclassifications	0	0	0	0
Adjustments*	-11	-34	-32	-77
At 31 March 2010	0	0	-45	-45
Balance at 31 March 10	745,172	4,342	7,796	757,310
Balance at 1 April 09	707,030	4,393	7,455	718,878

\*Following a review of asset ownership, adjustments have been made to transfer various assets, mainly land, into HRA.

### 7 Fixed Asset Valuation

A complete revaluation of HRA assets was carried out as at 1 April 2009 by the District Valuer (North). Please refer to the Accounting Policy note on the different bases of valuation. As at that date, the vacant possession value of dwellings was £1,511 million. The difference between this and the balance sheet value reflects the economic cost to the Government of providing council housing at less than open market rents.

Notwithstanding the requirement for a formal programme of revaluations, the Council is required to monitor values for material in year movements. After liaising with the valuer there were not any unusual or material movements and asset values reflected in the accounts are as at 01 April 2009.

## ADDITIONAL FINANCIAL STATEMENTS

### 8 Capital Expenditure and Sources of Finance

2008/09 £000s		2009/10 £000s
	Capital Expenditure:	
17,291	Fixed Assets	23,571
17,291	Total Capital Expenditure	23,571
	Financed by:	
3,025	Major Repairs Reserve	13,286
3,112	Capital Receipts	335
49	Capital Grant and Contributions	599
11,105	Revenue	9,351
17,291	Total Sources of Finance	23,571

### 9 Capital Receipts

2008/09 £000s		2009/10 £000s
	Capital receipts from sales of:	
4,730	Dwellings (net of sale administration fees)	2,351
31	Land	61
181	Capital receipts from mortgage repayments and clawback of legal title on Right to Buy sales	290
4,942		2,702
-3,213	Contribution to Housing Pooled Capital Receipts	-1,815
1,729	Usable capital receipts	887

The HRA is required to pay over a certain proportion of capital receipts into a national pooling arrangement.

### 10 Housing Stock

The Council's housing stock at 31 March 2010 is analysed below by size and age:

<u>By Size</u>	1 Bedroom	2 Bedrooms	3 Bedrooms	4+ Bedrooms	Total
Houses/ Bungalows	2,827	5,889	4,791	352	13,859
Flats/ Bedsits and Maisonettes	6,964	2,184	115	0	9,263
	9,791	8,073	4,906	352	23,122
<u>By Age</u>	Pre 1945	1945-64	1965-74	Post 1974	Total
Houses/ Bungalows	6,009	5,616	1,566	642	13,833
Flats/ Bedsits and Maisonettes	163	2,469	3,913	2,744	9,289
	6,172	8,085	5,479	3,386	23,122

## ADDITIONAL FINANCIAL STATEMENTS

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### 11 Rent Arrears

Rent arrears have increased over the year, as follows:

31 March 2009 £000s		31 March 2010 £000s
5,170	Rent Arrears	5,557
-2,565	Less Bad Debt Provision	-2,975
<u>2,605</u>	Net Rent Arrears	<u>2,582</u>

## ADDITIONAL FINANCIAL STATEMENTS

### COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

The Collection Fund shows the income received from Council Tax and Non-Domestic Rates and the way in which this has been distributed to precepting authorities and the Council's General Fund.

2008/09 £000s		2009/10 £000s	2009/10 £000s	Note
	<u>Income</u>			
141,312	Income from Council Tax		143,879	1
	Transfers from General Fund -			
26,709	Council Tax Benefits		30,200	
692	Locally Defined Discount Pensioner Reduction *		759	
94,720	Income Collectable from Business Ratepayers		93,293	2
	Contributions -			
1	Adjustment of previous years' Community Charges		1	
263,434	<b>Total Income</b>		268,132	
	<u>Expenditure</u>			
	Precepts and demands -			
144,969	Kirklees Council	152,098		
15,478	West Yorkshire Police Authority	16,162		
6,249	West Yorkshire Fire Authority	6,523	174,783	
	Business Rate -			
94,100	Payment to national pool	92,664		
620	Cost of collection	629	93,293	
2,696	Contribution to bad debts provision		1,466	
0	Distribution of previous year's estimated Collection Fund surplus		0	
264,112	<b>Total Expenditure</b>		269,542	
-678	<b>Movement on Fund Balance</b>		-1,410	3
-228	Balance at 1 April		-906	
-906	<b>Balance at 31 March</b>		-2,316	4

\* The Locally Defined Discount Pensioner Reduction has been separately identified from the Income from Council Tax figure in 2009/10. The Locally Defined Discount Pensioner Reduction figure of £0.7 million was incorrectly included in the Income from Council Tax figure in 2008/09.

## ADDITIONAL FINANCIAL STATEMENTS

### NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

#### 1 Council Tax

The Council Tax is charged on a series of property valuation bands. These bands, the charges due for the year and the average Council Tax are shown below.

Number of Chargeable Dwellings	2008/09		Band	2009/10		
	Band D Equivalent Dwellings	Average Council Tax £		Number of Chargeable Dwellings	Band D Equivalent Dwellings	Average Council Tax £
75	42	739.69	A (5/9)*	79	44	764.93
66,730	44,487	887.63	A (6/9)	67,156	44,770	917.92
28,311	22,020	1,035.56	B (7/9)	28,686	22,311	1,070.91
27,080	24,071	1,183.50	C (8/9)	27,403	24,358	1,223.89
13,930	13,930	1,331.44	D (9/9)	14,118	14,118	1,376.88
10,085	12,326	1,627.32	E (11/9)	10,206	12,474	1,682.85
4,417	6,379	1,923.19	F (13/9)	4,460	6,442	1,988.83
1,828	3,046	2,219.07	G (15/9)	1,825	3,042	2,294.80
82	164	2,662.88	H (18/9)	85	170	2,753.76
	126,465		Total		127,729	
	-1,265		Adjustments **		-787	
	125,200		Council Tax Base		126,942	

\* Band A disabled    \*\* Estimated losses on collection

#### 2 National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies a multiplier (48.1p in 2009/10) and, subject to the effects of transitional arrangements and other reliefs, local businesses pay rates calculated by applying the multiplier to their rateable value. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population. The amounts included in the Collection Fund can be analysed as follows:

2008/09		2009/10	
£000s		£000s	
n/a	Non-domestic rate income 2009/10 (average rateable value £238,350,316.15)	115,508	
110,284	Non-domestic rate income 2008/09 (average rateable value £237,647,332.64)		n/a
-15,564	Allowance and other adjustments (net)		-22,215
94,720	Net contribution to NNDR pool		93,293

The actual non-domestic rateable value at 31 March 2010 was £239,116,415 (£238,421,625 at 31 March 2009).

## ADDITIONAL FINANCIAL STATEMENTS

### 3 Precepts and Demands

The balance on the Collection Fund relates to both Council Tax and Community Charge. That part of the balance which relates to Community Charge will be paid to the Council in subsequent financial years. That part of the balance which relates to Council Tax will be shared between the Council, the West Yorkshire Police Authority, and the West Yorkshire Fire Authority in proportion to their precepts and demand on the Fund, again in subsequent financial years. The balance is split as follows:

2008/09	Precept / Demand	Share of March 2010 Deficit	2009/10
£000s	£000s	£000s	£000s
144,379 Kirklees Council	152,098	-1,227	150,871
15,415 West Yorkshire Police Authority	16,162	-131	16,031
6,224 West Yorkshire Fire Authority	6,523	-52	6,471
166,018	174,783	-1,410	173,373

### 4 Movement of Fund Balance

From 1 April 2009 there was a new accounting policy regulation for Council Tax income. For both billing authorities and major preceptors, the Council Tax income included in the Income and Expenditure Account for the year shall be accrued income for the year.

For both the billing authority and major preceptors, the difference between the income included in the Income and Expenditure Account and the amount required by regulation to be debited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

The billing authority income included in the Income and Expenditure Account in 2009/10 was £150.9 million. Comparing this amount to the billing authority precept and demand shown in the Collection Fund Income and Expenditure Account in 2009/10 (£152.1 million) leaves a reconciling item of £1.2 million which is shown in the Statement of Movement on the General Fund Balance and taken to the Collection Fund Adjustment Account in the Balance Sheet.

31 March 2009	Share of March 2010 Deficit	31 March 2010
£000s	£000s	£000s
7 Kirklees Council Community Charge Surplus	0	7
-794 Kirklees Council – Council Tax Deficit	-1,227	-2,021
-787 Collection Fund Adjustment Account	-1,227	-2,014
-85 West Yorkshire Police Authority – Council Tax Deficit	-131	-216
-34 West Yorkshire Fire Authority – Council Tax Deficit	-52	-86
-906	-1,410	-2,316

## GROUP ACCOUNTS

### EXPLANATORY FOREWORD

The increasing diversity of service delivery vehicles used by local authorities over recent years has resulted in a requirement to produce Group Accounts. Rather than just using traditional types of service provision many local authorities now form or invest in separate companies in the public and private sector. As these companies and investments are separate entities, they are not considered in the accounts of the authority. This can result in accounts that do not give a full picture of the services provided and the risks, rewards and costs taken on as a result.

The Group Accounts include:

- **An Explanatory Foreword** - provides a guide to the most significant items reported.
- **The Statement of Accounting Policies** - explains the basis of the figures in the financial statements.
- **Income and Expenditure Account** - shows the income and expenditure relating to the Council and its associated companies and demonstrates how this has been financed.
- **Reconciliation of the Single Entity Surplus or Deficit to the Group Surplus or Deficit** - reconciles the surpluses or deficits on the Income and Expenditure Accounts of the single entity and the Group.
- **Statement of Total Recognised Gains and Losses (Group STRGL)** - brings together all gains and losses experienced by the Group during the year, including those not reflected in the Income and Expenditure Account.
- **Balance Sheet** - summarises the financial position of the Council and its associated companies, and shows their assets and liabilities at the year end.
- **Cash Flow Statement** - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Notes to the Accounts** - adds to and helps the interpretation of the individual statements.

The Council's Group Accounts are made up of the accounts of the Council, two wholly owned subsidiaries (Kirklees Neighbourhood Housing Limited and Kirklees Metropolitan Development Company) where the Council has control over financial and operational decisions, and two joint ventures (Kirklees Henry Boot Partnership Limited and Kirklees Stadium Development Limited). The interest in and level of control over the joint ventures is so significant that omission from the Group Accounts would not give the whole picture of the Council's interests and services.

All of the Council's subsidiaries and joint venture companies are going concerns, except for Kirklees Henry Boot Partnership Limited which will be wound up over the next twelve months. This follows approval given by Cabinet on 1 February 2010 for the Council to acquire land, premises and shares from the company. The Council has no commitment to meet any accumulated losses of the companies within the Group.

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the subsidiaries aforementioned. Both subsidiaries are consolidated using "the acquisition method". The other interests have been incorporated as joint ventures using the "gross equity method". The consolidation has been prepared in accordance with the SORP and CIPFA's Group Accounts in Local Authorities Practitioners' Workbook. Any divergences from these recommended practices are explained in the Group Accounts' Accounting Policies below.



**The Subsidiaries and Joint Ventures of Kirklees Council**

**SUBSIDIARIES**

**Kirklees Neighbourhood Housing Limited (KNH)**

The principal activity of KNH is to manage, maintain and improve the housing stock owned by the Council.

The body is a company limited by Guarantee. The Company has fifteen directors, five nominated by the Council, five tenant representatives and five independent representatives. Despite the composition of the board, the Council maintains 100% of the risk, reward and control.

KNH produce their own set of accounts with a year end date of 31 March. Copies of the accounts can be obtained from Kirklees Neighbourhood Housing, 2<sup>nd</sup> Floor, Perseverance House, St Andrews Road, Aspley, Huddersfield, HD1 6RY.

Due to the timing of the requirement to produce the Group Accounts, draft KNH accounts have been used for this consolidation.

In 2009/10 the company made an operating surplus of £0.9 million (£0.013 million 2008/09). The figures including the effects of FRS17 are an operating surplus of £0.3 million (operating deficit £0.7 million 2008/09).

As at 31 March 2010 the company had net assets of £2.2 million (£1.3 million at 31 March 2009). The figures including the effects of FRS17 are net liabilities of £10.4 million (£4.1 million at 31 March 2009).

**Kirklees Metropolitan Development Company Limited (Devco)**

The main activity of the company is the letting of properties in the Kirklees area. In the financial year 2009/10, company activities comprised managing the lettings of two industrial estates, Silver Court at Moldgreen and Riverside Way at Ravensthorpe.

The company is 100% controlled by the Council and is limited by Guarantee.

Devco produces its own set of accounts with a year end date of 31 March. Copies of the accounts can be obtained from the Council's Director of Finance & Performance.

Due to the timing of the requirement to produce the Group Accounts, unaudited Devco accounts have been used for this consolidation.

In 2009/10 the company made an operating profit of £18 thousand (£6 thousand loss in 2008/09).

As at 31 March 2010 the company had net assets of £1.9 million (£1.9 million at 31 March 2009).

**JOINT VENTURES**

**Kirklees Henry Boot Partnership Limited (KHBP)**

KHBP was formed to complete development projects throughout the Kirklees area. Its main schemes include the completion of the Kingsgate Shopping Centre and the disposal of the Yards' buildings. Although construction of the former is complete the company still has an interest in terms of equity participation. The company will be wound up during the next 12 months.

The company has been controlled, since commencement of trade in 1989, by the Council and Henry Boot Plc, on a 50/50 basis. The Council owns 25% of shares in the company directly and holds 25% indirectly through the subsidiary Kirklees Metropolitan Development Company.

The Company's accounting year ends 31 December. Copies are available from the Council's Director of Finance & Performance.

At the time of consolidation of the Group Accounts, the KHBP accounts were still being audited.

**Kirklees Stadium Development Limited (KSDL)**

The company was formed to carry out the development, construction and running of the sports stadium in Huddersfield.

At the Company's balance sheet date, the Council had a shareholding of 40%, with Huddersfield Sporting Pride Limited holding the other 60%.

The SORP specifies that entities in the Group should share the same year end date as the reporting authority. Where this is not practicable it is recommended that accounts prepared in the three months prior to the Authority's are used. Given the nature of KSDL's business the ideal time for preparing accounts is during the football close season, giving the company a year end date of 31 July. In order to achieve a consolidation consistent with the Council's balance sheet date, the KSDL management have provided management accounts as at 31 March 2010.

**Financial performance of joint ventures**

	<b>KHBP £000s</b>	<b>KSDL £000s</b>
Turnover	7	741
Profit / Loss (-) before tax	-45	68
Taxation	0	0
Profit / Loss (-) after tax	-45	68
Fixed assets	1,072	8,844
Current assets	215	930
Liabilities due within one year	-553	-702
Liabilities due after one year or more	0	-2,419
Accruals and deferred income	0	-2,109

**STATEMENT OF ACCOUNTING POLICIES**

In the 2006 SORP, the introduction of an Income and Expenditure Account and a Statement of Total Recognised Gains and Losses for the single entity accounts means that Group Accounts are no longer required to be prepared according to accounting policies that are a hybrid between those adopted by the Council and those used by the group entities. The single entity Income and Expenditure therefore provides the basis for the Group Income and Expenditure Account without the need for any adjustments, apart from adjustments for intra-group transactions.

However, companies do have some scope to adopt different accounting policies under UK GAAP, and therefore adjustments must be made to the company figures and policies where necessary in order to bring them into line with the reporting authority's policies.

The Accounting Policies used in the Group Accounts are the same as those for the single entity unless otherwise stated.

**ADJUSTMENTS TO THE AUTHORITY'S ACCOUNTS TO COMPLY WITH GAAP**

**Pensions**

The Council is required to account for its subsidiaries with defined benefit pension schemes using FRS17. The specific accounting treatments of FRS17 are detailed in the single entity's Accounting Policies.

KNH has a defined benefit scheme and must adhere to FRS17. The SORP requires that the FRS17 entries are consolidated in the Group Accounts. This has an impact on the revenue of the Company as unlike local authorities, companies are not allowed to reverse the effect of FRS17 debits and credits out of their profit and loss accounts. This means that rather than by an appropriation to/from a pensions

reserve they must be accounted for in the Group Income and Expenditure Account, adjusting the results of the Company. Balance Sheet entries follow the same principles as those of the Council.

### **Tangible Fixed Assets**

The SORP requires that the reporting authority and its subsidiaries share the same Accounting Policies in relation to measurement, recognition, valuation and depreciation of fixed assets. These policies are detailed in the single entity Accounting Policies.

The only fixed assets held by the Council's subsidiaries are investment properties owned by Devco. Devco shares the Council's policy of carrying investment properties at the lower of net current replacement cost and net realisable value, so no adjustments to these asset values were required. The SORP does not specifically require the revaluation of the fixed assets of joint ventures in the Group Account reconciliation. As such the stadium owned by KSDL has not been revalued and is included in the "Share of Gross Assets of Joint Venture" line on the balance sheet using the Company's depreciated historical cost valuation. Given the size and unique nature of the stadium any revaluation would be likely to have adverse cost-benefit implications compared with the information it would provide to the users of the accounts.

### **Prior Year Adjustments**

All prior year adjustments from the single entity accounts are also presented in the Group Accounts.

The 2008/09 Group Accounts were partly based on unaudited and management accounts. As such last year's audited company accounts have been studied for any material changes from the figures reported.

For the joint venture companies (KHBP and KSDL), only minor changes have occurred and the original figures for 2008/09 have been used and adjustments made in the Group Statement of Recognised Gains and Losses. However, there were more significant changes for the subsidiary companies. In the 2008/09 Group Accounts, estimated FRS17 figures for KNH were used. The actual figure was £400,000 lower than estimated. In addition to this, Devco's fixed assets were valued at £475,000 less in the final audited accounts than those figures used for the 2008/09 Group Accounts. In both cases, these figures have been restated in the balance sheet.

## GROUP INCOME AND EXPENDITURE ACCOUNT

2008/09			2009/10		
Net Expenditure			Gross Expenditure	Income	Net Expenditure
£000s	£000s Restated		£000s	£000s	£000s
99,820	105,494	Children's and Education Services	483,796	380,302	103,494
99,644	99,644	Adult Social Care	135,222	34,566	100,656
-15,649	-15,649	Housing	182,148	216,383	-34,235
39,135	39,135	Highways and Transport	58,437	18,397	40,040
83,199	84,292	Cultural, Environment and Regulatory Planning	115,045	32,424	82,621
7,924	7,924	Central Services to the Public	45,187	37,569	7,618
453	453	Courts	467	0	467
714	714	Other Services	4,206	4,165	41
8,719	8,719	Corporate and Democratic Core	9,016	385	8,631
2,025	2,025	Non-distributed Costs	15,341	411	14,930
134,379	134,379	Exceptional Item	0	0	0
		Share of operating results of joint ventures:			
-1,134	-1,134	Turnover	0	1,045	-1,045
721	721	Cost of Sales and Operating Expenditure	708	0	708
459,950	466,717	<b>Net cost of services</b>	1,049,573	725,647	323,926
4,110	4,110	Gains(-)/ Losses on disposal of fixed assets			9,764
-182	-182	Other income defined as capital receipts but not arising from asset disposal			-291
519	519	Precepts and levies			538
2,141	2,141	Net surplus(-)/deficit on trading operations			-1,960
31,107	37,063	Interest payable			35,045
419	419	Share of interest payable by joint ventures			314
-9,024	-9,024	Interest and investment income			-2,221
-1	-1	Share of investment income of joint ventures			0
3,213	3,213	Amount payable to the Housing Capital Receipts Pool			1,815
17,386	17,386	Pensions interest cost and expected return on pensions assets			32,039
15	15	Taxation of Group Entities			20
0	0	Share of Taxation of Joint Ventures			0
509,653	522,376	<b>Net operating expenditure</b>			398,989
-43,961	-55,319	General grants and contributions			-75,104
-144,969	-144,379	Income from the Collection Fund			-150,871
-128,277	-128,277	Contribution from Non-Domestic Rate Pool			-123,396
192,446	194,401	<b>Deficit for the year</b>			49,618

**RECONCILIATION OF THE SINGLE ENTITY SURPLUS OR DEFICIT TO THE GROUP SURPLUS OR DEFICIT**

2008/09			2009/10
£000s	£000s		£000s
	Restated		
-191,769	-193,724	Deficit on the Authority's single entity Income and Expenditure Account for the year	-49,958
		Surplus/Deficit(-) arising from other entities included in the Group Accounts:	
-672	-672	Subsidiaries	317
-5	-5	Joint Ventures	23
<u>-192,446</u>	<u>-194,401</u>	<b>Group Account Deficit for the year</b>	<u>-49,618</u>

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2008/09		2009/10
£000s		£000s
	Restated	
-194,401	Deficit for the year	-49,618
36,617	Surplus/deficit(-) arising from the revaluation of fixed assets	54,994
54,782	Actuarial gains and losses(-) on pension fund assets and liabilities	-406,758
-11	KNH - Past service losses(-) on pension fund assets and liabilities	0
-78	Net Movement in Available for Sale Financial Instruments	-31
-48	Kirklees Council - Other gains and losses(-)	-17
-236	Changes to previous year's Group Account figures	121
<b>-103,375</b>	<b>Total recognised losses(-) for the year</b>	<b>-401,309</b>

## RECONCILIATION OF 2008/09 GROUP BALANCE SHEET RESTATEMENT

As the balance sheet has been restated for 2008/09, the table below reconciles the change between the opening and closing balance sheets for 2008/09. More information in relation to the adjustments can be found in note 1 to the accounts.

2008/09	
£000s	
794,912	<b>Net Worth at 31 March</b>
111,564	VC Church schools
64,344	PFI asset adjustments
2,350	Land at Castle Hill Special School
119	Collection Fund adjustments
-75	Net Group adjustments
<b>973,214</b>	<b>Net Worth at 31 March</b>

## GROUP BALANCE SHEET

31 March 2009		31 March 2010	
£000s	Restated £000s	£000s	£000s
1,374	1,374		
		Intangible Assets	3,740
		<u>Tangible Operational Assets-</u>	
707,031	707,031	Council Dwellings	745,172
700,897	1,038,425	Other Land and Building	1,086,696
19,405	19,405	Vehicles, Plant and Equipment	21,437
163,866	163,866	Infrastructure Assets	180,092
2,638	2,638	Community Assets	4,864
		<u>Tangible Non-Operational Assets-</u>	
84,276	83,801	Investment Properties	86,349
11,589	11,589	Assets Under Construction	4,842
16,294	16,294	Surplus Assets	24,301
			115,492
67,327	0	Deferred Consideration	0
10,116	10,116	Long Term Investments	4,428
11,426	11,426	Share in the Assets of Joint Ventures	11,059
-6,326	-6,326	Share in the Liabilities of Joint Ventures	-5,782
16,193	8,690	Long Term Debtors	28,342
<b>1,806,106</b>	<b>2,068,329</b>	<b>Total Long Term Assets</b>	<b>2,195,540</b>
		Current Assets -	
2,596	2,596	Stocks and Work in Progress	2,277
60,126	58,664	Debtors	73,125
0	0	Landfill Allowances	0
89,172	89,172	Investments	12,846
9,138	9,138	Cash and Bank	29,164
<b>1,967,138</b>	<b>2,227,899</b>		<b>2,312,952</b>
		Current Liabilities -	
-9,065	-9,065	Short Term Borrowing	-18,581
0	0	Landfill Usage	0
-100,557	-101,816	Creditors	-113,087
0	0	Bank Overdraft	-6,739
<b>1,857,516</b>	<b>2,117,018</b>	<b>Total Assets Less Current Liabilities</b>	<b>2,174,545</b>
-528,401	-528,401	Long Term Borrowing	-525,066
-5,341	-79,422	Deferred Liabilities	-76,531
-23,147	-23,147	Provisions	-24,088
-120,201	-120,201	Grants-Deferred Account	-152,425
0	-7,519	Deferred Income	-6,982
-385,514	-385,114	Net liability relating to defined benefit pension scheme	-817,548
<b>794,912</b>	<b>973,214</b>	<b>Total Assets Less Liabilities</b>	<b>571,905</b>

## GROUP BALANCE SHEET (Continued)

31 March 2009			31 March 2010	
£000s	Restated £000s		£000s	Notes
908,159	1,031,066	Capital Adjustment Account	1,030,269	1
-3,081	-3,081	Financial Instruments Adjustment Account	-6,801	
0	-787	Collection Fund Adjustment Account	-2,013	
-4,700	-4,700	Unequal Pay Back Pay Account	0	
156,200	204,900	Revaluation Reserve	250,228	
169	169	Available-For-Sale Financial Instruments Reserve	138	
7,000	7,000	Usable Capital Receipts Reserve	7,000	
151	151	Deferred Credits	121	
-380,111	-380,111	FRS17 Pensions Reserve	-804,904	
17,590	17,590	Major Repairs Reserve	19,037	
36,745	42,921	Earmarked Reserves	41,933	
31,726	32,126	General Fund Balance	9,933	
25,970	25,970	Housing Revenue Account Balance	26,964	
-906	0	Collection Fund Balance	0	
794,912	973,214	<b>Total Net Worth</b>	571,905	



## GROUP CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Note 45 to the Core Financial Statements specifically supports this statement.

2008/09			2009/10	
£000s	£000s		£000s	£000s
	Restated			
		<u>Revenue Activities</u>		
51,871	61,081	<b>Net cash inflow from Revenue Activities</b>		42,515
		<u>Dividends from Joint Ventures and Associates</u>		
0	0	<b>Net cash inflow from dividends received</b>		440
		<u>Returns on Investments and Servicing of Finance</u>		
		Cash Outflows -		
-30,751	-30,751	Interest paid	-29,123	
-326	-6,282	Interest element of finance lease rentals	-6,109	
-24	-24	Premiums from early repayment of loans	-82	-35,314
		Cash Inflows -		
9,150	9,150	Interest received	3,525	
18	18	Discounts from early repayment of loans	30	3,555
-21,933	-27,889	<b>Net cash outflow from Investments and Servicing of Finance</b>		-31,759
		<b>Taxation</b>		-20
-15	-15			
		<u>Capital Activities</u>		
		Cash Outflows -		
-97,975	-99,070	Purchase of assets	-108,367	
-5,596	-5,596	Long term investments	-26,184	
-820	-820	Other capital cash payments	-541	-135,092
		Cash Inflows -		
6,663	6,663	Sale of fixed assets	5,952	
25,457	25,457	Capital grants received	53,549	
17,222	17,222	Long term investments now less than twelve months	7,000	
1,884	1,884	Other capital cash receipts	669	67,170
-53,165	-54,260	<b>Net cash outflow from Capital Activities</b>		-67,922

## GROUP CASH FLOW STATEMENT (Continued)

2008/09			2009/10	
£000s			£000s	£000s
		<u>Acquisition and disposals of Joint Ventures and Associates</u>		
0	0	<b>Net cash inflow from acquisition and disposals</b>		0
-23,242	-21,083	<b>Net cash outflow before financing</b>		-56,746
		<u>Management of Liquid Resources</u>		
23,178	23,205	<b>Net cash inflow/outflow(-) from short term investments</b>		66,873
		<u>Financing</u>		
		Cash Outflows -		
-14,684	-14,684	Repayments of amounts borrowed (long term)	-35,822	
-22,008	-22,008	Repayments of amounts borrowed (short term)	-30,790	
-181	-2,481	Finance Lease Principal	-2,839	
-211	-211	Repayment of transferred debt	-187	-69,638
		Cash Inflows -		
0	0	New loans raised (long term)	43,349	
25,647	25,647	New loans raised (short term)	29,449	
0	114	New finance lease liability	0	72,798
-11,437	-13,623	<b>Net cash inflow/outflow(-) from Financing</b>		3,160
-11,501	-11,501	<b>Increase/Decrease(-) in Cash</b>		13,287

## NOTES TO THE GROUP ACCOUNTS

**1 Capital Adjustment Account**

The Group Capital Adjustment Account consolidates the following along with the Council balance:

- £0.6 million in relation to Devco's Capital Funding Account.
- £4.2 million as the Council's share of £10.4 million set aside by KSDL as Capital Funding.

**2 Related Party Transactions**

The notes below disclose the related party transactions between the Council and its Subsidiaries and Joint Ventures, as well as the transactions between the companies and their other related parties.

**Kirklees Neighbourhood Housing Limited**

During 2009/10, KNH incurred costs of £1.9 million (2008/09 £2.3 million) for Council services including insurance and office accommodation. At 31 March 2010, £0.3 million was outstanding (£0.2 million at 31 March 2009).

The Council incurred costs of £14.6 million (2008/09 £14.0 million) in relation to KNH's management fee. At 31 March 2010, £0.5 million was outstanding (£1.7 million at 31 March 2009).

**Kirklees Metropolitan Development Company Limited**

Devco paid the Council £99,000 for service provision in 2009/10 (2008/09 £94,000). At 31 March 2010 a balance of £69,000 was owing to the Council (£61,000 at 31 March 2009).

During the same period the Council incurred rent and service charges of £46,000 (2008/09 £40,000) in relation to Devco properties.

**Kirklees Henry Boot Partnership Limited**

At the Balance Sheet date of KHBP, the Council's investment (including that of Devco) was reflected in equity of £250,000 and secured loans of £4.2 million. Interest of £63,000 (2008/09 £259,000) was incurred in the year on the outstanding loans. The Council charged the Company £17,000 (2008/09 £22,000) in respect of freeholds transferred and various services.

At the Balance Sheet date of KHBP, Henry Boot Plc's investment through certain of its wholly owned subsidiaries was reflected in equity of £250,000 (2008/09 £250,000). At the Balance Sheet date £177,000 (2008/09 £177,000) was due from Henry Boot Group to KHBP in respect of an overpayment in relation to a land transfer.

At the Council's Balance Sheet date, £561,000 (2008/09 £499,000) was due to the Council in respect of interest accrued and £536,000 (2008/09 £536,000) in respect of the transfer of land at Healds Road, Dewsbury.

The company will be wound up during the next twelve months.

**Kirklees Stadium Development Limited**

The company occupies land owned by the Council under leases for which a premium of £0.9 million is payable.

The Council pays the company a rental for the use of office space at the stadium. In the year ended 31 March 2010, the Council paid rent of £140,000 (2008/09 £70,000). The Council also provided funding of £275,000 (2008/09 £275,000). The Council paid the company a further £106,000 in various rents and maintenance in year ending 31 March 2010 (2008/09 £48,000). In 2009/10, the company paid the Council £14,000 for various services (2008/09 £5,000).

The Council also guarantees loans for the Company. These are detailed in the Contingent Liabilities note in the Council accounts.

3. Notes to the Cash Flow Statement

The cash flows of KNH and Devco are consolidated into the statement -

**KNH** - The Company has a Net Revenue Activities inflow of £2.4 million.

**Devco** - The Company has a Net Revenue Activities outflow of £3,000 and an investment outflow of £40,000, resulting in a reduction in the cash figure of £43,000.

▪ Reconciliation of Net Movement on the Income and Expenditure Account to Revenue Activities Net Cash Flow

This reconciliation identifies items included within the Income and Expenditure Account that do not result in cash flows under the revenue activities in the statement.

2008/09			2009/10
£000s	£000s		£000s
	Restated		
-192,446	-194,401	Income and Expenditure Account Deficit for the year	-49,618
5	5	Surplus or deficit attributable to joint ventures	-23
-678	0	Movement on the Collection Fund Balance	0
22,037	27,993	Interest	32,847
-440	-440	Dividends	-628
		Non-cash transactions -	
26,012	26,012	Movement on Pensions Reserve	25,676
367	367	Movement on Landfill Allowance Trading Reserve and SSA dispute	76
195,701	201,025	Various capital accounting entries	34,430
3,057	3,057	Provisions including those for bad debts	941
171	171	Accounting for Financial Instruments	3,922
54	54	Premiums	-23
		Items on an accruals basis -	
-427	-427	Increase(-)/decrease in stock	319
-6,710	-7,503	Increase in revenue debtors	-7,012
5,153	5,153	Increase in revenue creditors	1,588
		Items in another classification in the cashflow statement	
15	15	Taxation	20
51,871	61,081	Net Cash Inflow from Revenue Activities	42,515

**Accruals**

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

**Available-for-Sale Financial Instruments Reserve**

Store of gains or losses on revaluation of financial assets not yet realised through sales.

**Capital Expenditure**

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

**Capital Adjustment Account**

This account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

**Capital Receipts**

These are the proceeds from the sale of capital assets and are treated in accordance with statutory provisions of the Local Government and Housing Act 1989.

**The Collection Fund**

The Collection Fund is a separate statutory fund under the provisions of the Local Government Finance Act 1988. It shows the transactions of the billing authority in relation to national non-domestic rates (NNDR) and Council Tax.

**Community Assets**

Assets that the Council intends to hold in perpetuity, have no determinable useful life, and may have restrictions on their disposal. Examples of community assets are parks.

**Contingent Asset**

A possible asset that arises from past events, and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Examples of contingent assets include claims for compensation being pursued through the legal process.

**Contingent Liability**

A possible obligation at the Balance Sheet date, whose existence will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events. Where a material loss can be estimated with reasonable accuracy a liability is accrued in the financial statements. If, however a loss cannot be accurately estimated or its occurrence is not considered sufficiently probable to accrue it, the obligation is disclosed in a note to the Balance Sheet. Examples of contingent liabilities include legal claims pending settlement.

**Corporate and Democratic Core**

The Corporate and Democratic Core is concerned with the costs of corporate policy making and all council member-based activities, together with costs that relate to the general running of the Council including those relating to corporate management, public accountability and treasury management.

**Current Service (Pensions) Cost**

The current service cost is an estimate of the true economic cost of employing people in a financial year, earning years of service that will eventually entitle them to the receipt of a lump sum and pension when they retire. It measures the full liability estimated to have been generated in the year (at today's prices) and is thus unaffected by whether any fund established to meet liabilities is in surplus or deficit.

**Deferred Credits**

These are amounts derived from sales of assets which will be received in instalments over agreed periods of time.

### **Deferred Liabilities**

These consist of liabilities which by arrangement are payable beyond next year. Examples include outstanding finance lease obligations and debt taken over from former bodies where the loan management rests with another authority.

### **Defined Benefit Pension Scheme**

A scheme in which retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits. Accounted for by recognising liabilities as benefits are earned (i.e. employees work qualifying years of service), and matching them with the organisation's attributable share of the scheme's investments.

### **Depreciated Replacement Cost**

A method of valuation which provides a recognised proxy for the market value of specialised properties. It is an estimate of the market value for the existing use of land, plus the current gross replacement (or reproduction) costs of improvement, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

### **Depreciation**

The measure of the cost or revalued amount of the benefit, of the fixed asset that has been consumed during the period.

Consumption includes the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

### **Existing Use Value (EUV)**

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

### **Existing Use Value – Social Housing (EUV – SH)**

Existing Use Value for Social Housing is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arms-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following assumptions:

- The property will continue to be let by a body and used for social housing;
- At the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably hinder the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements;
- Properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let then, rather than with vacant possession; and
- Any subsequent sale would be subject to all of the above assumptions.

### **Expected Rate of Return on Assets (Pensions)**

The expected return is a measure of the return on the investment assets held by the scheme for the year. It is not intended to reflect the actual realised return by the scheme, but a longer-term measure, based on the value of assets at the start of the year (taking into account movement in assets during the year) and an expected return factor.

### **Fair Value**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. Usually the best evidence of fair value of a financial instrument on initial recognition is the transaction price; that is the consideration given or received.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. It covers the most straightforward financial assets and liabilities such as trade receivables and payables, and more complex ones such as forward investments and stepped rate loan instruments.

### **Financial Instruments Adjustment Account**

Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowing and investments.

### **General Fund**

This is the account for the major functions for which the Council is responsible excluding the HRA. Credited to the General Fund are charges, Government and other grants, and the Council's demand on the Collection Fund.

### **Government Grants Deferred Account**

This represents the balance of grants applied to the financing of fixed assets, awaiting amortisation to service revenue accounts to match depreciation on the relevant assets.

### **Housing Revenue Account (HRA)**

This fulfils the statutory obligation for Councils to account separately for the provision of Council houses. The Local Government and Housing Act 1989 ring fenced the HRA so that no subsidy can be received from the General Fund.

### **Impairment**

A reduction in the value of fixed assets resulting from obsolescence, physical damage or general market conditions.

### **Infrastructure Assets**

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

### **Intangible Assets**

Intangible assets are assets which do not have a physical form e.g. externally purchased software.

### **Interest Cost (Pensions)**

For a defined benefit scheme, the expected increase during the period in the present value of scheme liabilities because the benefits are one period closer to settlement.

### **Leasing**

A method of financing capital expenditure which allows the Council to use, but not own an asset. A third party (the lessor) purchases the asset on behalf of the Council (the lessee) which then pays the lessor a rental over the life of the asset. A finance lease substantially transfers the risks and rewards of ownership of a fixed asset to the lessee. An operating lease is any lease other than a finance lease.

### **Market Value**

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

### **MRP**

Minimum revenue provision. This is the minimum amount which must be charged to an authority's revenue account each year in respect of the financing of capital expenditure through borrowing.

### **Net Current Replacement Cost**

The cost of replacing or recreating an asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**Net Realisable Value**

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses of realising the asset.

**NNDR**

National non-domestic rates. The standard rate in the pound set by the Government on the assessed rateable value of properties used for business purposes.

**Non-distributed Costs**

These are overheads from which no service now benefits. Costs that may be included are certain pension costs and expenditure on certain unused assets.

**Non-Operational Assets**

Fixed assets held by a Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

**Operational Assets**

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of services for which it has either a statutory or discretionary responsibility.

**Past Service (Pensions) Costs**

Past service costs are a non-periodic cost, arising from decisions taken in the current year, but whose financial effect is derived from years of service earned in earlier years. Discretionary benefits, particularly added years, awarded on early retirement are treated as past service costs.

**Precept**

This is a charge levied by a local authority which is collected on its behalf by another authority (for example, the Police or Fire Authority). It does this by adding the precept to its own Council Tax and paying over the appropriate cash collected.

**Provisions**

These are liabilities of uncertain timing or amount.

**Related Parties**

Two or more parties are related parties when at any time during a financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests

Examples of related parties of an authority include its subsidiary and associated companies, its joint ventures and partners, other bodies precepting or levying demands on the Council Tax, its members and chief officers.

**Revaluation Reserve**

This account records the net gain from fixed asset revaluations made after 1 April 2007.

**Revenue Expenditure**

This is money spent on the day to day running costs of providing services. It is usually of a recurring nature and produces no permanent asset.

**Revenue Expenditure Funded from Capital under Statute**

Legislation in England and Wales allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the authority.



**Settlements and Curtailments (Pensions)**

Settlements and curtailments are non-periodic costs. They are events that change the pensions liabilities but are not normally covered by actuarial assumptions, for example a reduction in employees through a transfer or termination of an operation.

**Soft Loans**

Authorities sometimes make loans to individuals or organisations at less than market rates, where a service objective would justify the authority making a concession. The SORP requires the discounted interest rate to be recognised as a reduction in the fair value of the asset when measured for the first time.

**Unequal Pay Back Pay Account**

This account absorbs the effect of applying statutory provisions that allow the impact on the General Fund of settlements of back pay to be deferred until cash is actually paid (rather than when a provision becomes necessary).



### **Opinion on the accounting statements**

I have audited the Council and Group accounting statements and related notes of Kirklees Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The Council and Group accounting statements comprise the Council and Group Income and Expenditure Account, the Council Statement of Movement on the General Fund Balance, the Council and Group Balance Sheet, the Council and Group Statement of Total Recognised Gains and Losses, the Council and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Kirklees Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

### **Respective responsibilities of the Director of Finance and auditor**

The Director of Finance's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Council and Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Council and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the Council's governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures

I read other information published with the Council and Group accounting statements, and consider whether it is consistent with the audited Council and Group accounting statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Council and Group accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Council and Group accounting statements and related notes. It also includes an assessment of the significant

estimates and judgments made by the Council in the preparation of the Council and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Council and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Council and Group accounting statements and related notes.

### **Opinion**

In my opinion:

- The Council's accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended; and
- The Group accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Group as at 31 March 2010 and its income and expenditure for the year then ended.

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Council's Responsibilities**

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Kirklees Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

**Delay in issuing audit certificate**

The audit cannot be formally completed and an audit certificate issued, until I have completed my consideration of matters brought to my attention by local authority electors in respect of the 2007/08 accounts. I am satisfied that these matters do not have a material effect on the financial statements.

Paul Lundy

District Auditor  
Officer of the Audit Commission  
3 Leeds City Business Park  
Holbeck  
Leeds  
LS11 5BD

29 September 2010



## AUDITOR'S CERTIFICATE ON THE AUDIT OF KIRKLEES COUNCIL

### Issue of audit opinion on the accounting statements

In my audit report for the year ended 31 March 2010 issued on 29 September 2010 I reported that, in my opinion, the accounting statements:

- gave a true and fair view of the state of Kirklees Council's affairs as at 31 March 2010 and of its income and expenditure for the year then ended;
- gave a true and fair view of the state of the group's affairs as at 31 March 2010 and of its income and expenditure for the year then ended; and
- had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### Issue of value for money conclusion

In my audit report for the year ended 31 March 2010 issued on 29 September 2010 I reported that, in my opinion, in all significant respects, Kirklees Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

### Certificate

In my report dated 29 September 2010, I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention by local authority electors had been completed. These matters have now been dealt with.

No other matters have come to my attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion and value for money conclusion.

I certify that I have completed the audit of the accounts of Kirklees Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Lundy  
District Auditor

Audit Commission  
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9th May 2012